



**KAZ**  
MINERALS

# FROM PROMISE TO PERFORMANCE

KAZ MINERALS PLC  
ANNUAL REPORT  
AND ACCOUNTS 2016







FROM  
PROMISE TO  
PERFORMANCE

# BOZSHAKOL

Development  
approved

2011

2015

Produced 50 kt  
of copper in  
concentrate

2016

Commenced  
commissioning

Bozshakol is a large scale, open pit copper mine in the Pavlodar region of Kazakhstan which commenced production in February 2016. The mine will deliver transformational growth as it ramps up to design capacity in 2017.

The Bozshakol mine has a production life of over 40 years and employs around 1,500 workers.

HITACHI EX300



KAZ Minerals is a pure-play copper company focused on open pit mining in Kazakhstan.

In 2016 we completed the construction of our major growth projects at Bozshakol and Aktogay, delivering on our promise to transform the Group into a high growth, low cost producer.



For more information, see our website

[www.kazminerals.com](http://www.kazminerals.com)



# FROM PROMISE TO PERFORMANCE

“We are no longer talking about promises for the future – we are delivering today.”

Oleg Novachuk  
Chief Executive

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<sup>1</sup> Definitions of capitalised terms (including key financial metrics) are included in the Glossary on pages 175-176.



# Our operations

KAZ Minerals operates three underground mines in the north east of Kazakhstan, the Bozymchak copper-gold mine in Kyrgyzstan and the Bozshakol and Aktogay open pit copper mines in Kazakhstan.

Following the commencement of commissioning at Aktogay in December 2016, the Group's major growth projects are both operational.



## BOZSHAKOL

- Large scale open pit mine
- First copper output in February 2016
- 1,208 Mt of mineral resources<sup>1</sup> with a copper grade of 0.36%
- Gold, silver and molybdenum by-products
- Produced 45 kt copper cathode equivalent in 2016
- 10 year average production 100 kt copper and 120 koz gold p.a.
- Mine life 40 years

<sup>1</sup> Including inferred resources

## AKTOGAY

- Large scale open pit mine
- First oxide production December 2015, sulphide February 2017
- 1,701 Mt of mineral resources with a copper grade of 0.34%
- Molybdenum by-product
- Produced 18 kt copper cathode from oxide ore in 2016
- 10 year average production 105 kt copper p.a.
- Mine life 50+ years

## EAST REGION

- Underground operations
- Three mines and associated concentrators
- 37 Mt of mineral resources with a copper grade of 2.79%
- Significant zinc, gold and silver by-products
- Produced 70 kt copper in 2016
- Estimated remaining mine lives 9-18 years, including Artemyevsky II extension

## BOZYMCHAK

- Copper-gold open pit mine in Kyrgyzstan
- Operated at design capacity in 2016
- 16 Mt of mineral resources with a copper grade of 0.85% and gold grade 1.4 g/t
- Produced 7 kt copper and 38 koz gold bar equivalent in 2016
- Estimated remaining mine life 16 years including underground extension

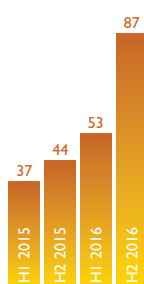


# High growth, low cost

KAZ Minerals has been transformed into a low cost producer. We have delivered consecutive results in which we have grown copper output and reduced our costs of production. Our growth will continue in 2017 and 2018 and we will seek to maintain our low cost position.

## HIGH GROWTH

In 2016, the ramp up of Bozshakol delivered a 73% increase in Group copper output year-on-year. By 2018, copper production will exceed 300 kt with 80% coming from our new open pit mines.

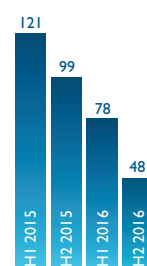


Copper cathode equivalent  
production (kt)

**+73%** FY 2015-16

## LOW COST

All of our assets are in the first or second quartile of the global copper cash cost curve. Costs have been driven down through the launch of Bozshakol, the devaluation of the tenge and operational efficiencies.



Group net cash  
cost (US\$/lb)

**-60%** H1 2015-H2 2016

## LOCATION AND INFRASTRUCTURE

The location of the Group's assets in Kazakhstan gives access to power, water, an established rail transport network and a skilled workforce.

Bozshakol and Aktogay also benefit from low strip ratios of 0.7 and 0.2 respectively and efficient labour, with only 1,500 employees required at each site.

## FOCUSED ON COPPER

After disposing of non-core assets and restructuring the Group in 2014, KAZ Minerals is now focused on copper mining.

The outlook for the copper price is positive as supply is restricted whilst growth in demand is being driven by the power, infrastructure, transport, consumer goods and clean energy sectors.



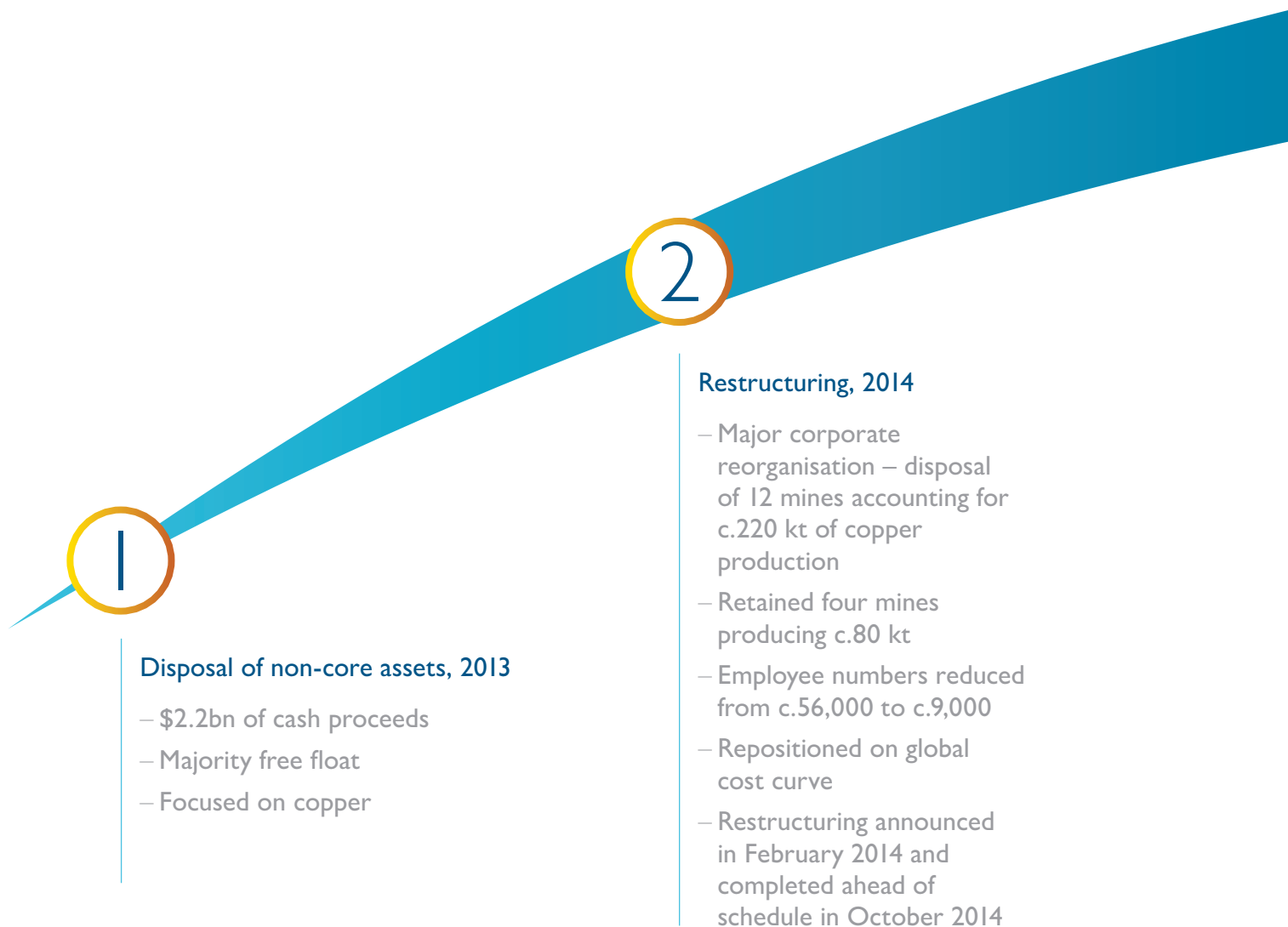
# Delivering against our promises

KAZ Minerals has a strong track record of delivering against its targets.

The current growth strategy for the Group began in 2011 when the Board approved the development of Bozshakol, followed by Aktogay in 2012. The Group disposed of non-core assets in 2013, realising \$2.2 billion of cash proceeds, and carried out a major corporate restructuring in 2014.

Following the restructuring KAZ Minerals retained higher margin operating assets in the East Region and two greenfield projects in development, Bozshakol and Aktogay. By the end of 2016 the construction of the two major growth projects was completed.

The Group has built a strong track record of operational performance over this period of change, consistently meeting its copper production guidance.







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### Complete growth projects, 2016

- Bozshakol sulphide commissioning began in December 2015
- 45 kt of copper cathode equivalent produced in 2016 at Bozshakol
- Aktogay oxide production began in December 2015
- Aktogay sulphide commissioning began in December 2016

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### ...Next steps

- Achieve design capacity at Bozshakol
- Ramp up Aktogay sulphide
- 300 kt of copper production in 2018
- Improve gearing metrics through earnings growth and debt repayments



# Delivering value to our stakeholders







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## What differentiates us

### Power costs

Our operations in Kazakhstan benefit from highly competitive power tariffs, enabling us to operate large scale facilities at low cost.

### Transport links

Our mines are connected to the existing infrastructure of the national rail network which enables us to efficiently deliver our products to customers.

### Clean concentrate

The copper concentrate produced at Bozshakol and Aktogay is very low in arsenic and other pollutants. It is also high in sulphur content, which is attractive for Chinese smelters.

## Communities

We create jobs and business opportunities for local communities. We support local social projects.

## Our people

We invest in our people, helping them to further their careers.

## Kazakhstan

We are a major economic contributor to Kazakhstan. Our tax contributions support the Government in providing public services and infrastructure. The Group funds social projects in the national interest.

## How we run our business

### Risk management

We closely monitor the risks associated with our activities.

Please see pages 56 to 62 for a detailed analysis of the key risks to our business.

### Corporate governance

KAZ Minerals adheres to the highest standards of corporate governance and is fully in compliance with the UK Corporate Governance Code.







FROM  
PROMISE TO  
PERFORMANCE

# AKTOGAY

Development  
approved

2012

2015

2017

First production  
from sulphide  
ore

First copper cathode  
from oxide ore

The Aktogay copper deposit is located in the East Region of Kazakhstan and has been developed as an open pit mine with on site SX/EW processing facilities and a 25 Mt sulphide concentrator.

Copper production from oxide ore commenced in December 2015 and production from sulphide ore began in February 2017. The ramp up of Aktogay's sulphide operations will benefit from the expertise gained at Bozshakol, due to the two mines having identical sulphide concentrators.

# Achieving our potential



**“2016 has been an exceptional year for KAZ Minerals in which we completed the construction of our major growth projects. With Bozshakol and Aktogay now operational, this is an appropriate point to reflect on our transformation over the past few years.”**

**Simon Heale**  
Chairman

## Reflecting on our progress

2016 has been an exceptional year for KAZ Minerals in which we completed the construction of our major growth projects, Bozshakol and Aktogay. The project budget for Aktogay was reduced by \$200 million and the Group's copper production rose by 73% accompanied by strong cost management. Bozshakol began production of copper in February 2016 and Aktogay commenced output from sulphide ore in February 2017. With the projects now operational, it is an appropriate point to reflect on the transformation of the Group over the past few years.

After securing long-term finance facilities from the China Development Bank and assembling a world class project team, the Group began the construction of Bozshakol in 2011 and Aktogay in 2012. In 2013, the sale of non-core assets focused the Group on copper and realised \$2.2 billion of cash proceeds. A restructuring in 2014 disposed of higher cost assets and reduced headcount from around 56,000 to 9,000, with the Group retaining the high grade polymetallic underground mines in the East Region of Kazakhstan, the Bozymchak mine in Kyrgyzstan and two greenfield sites in development.

With the completion of Bozshakol and Aktogay, KAZ Minerals has built and launched two major new copper mines in Kazakhstan, the result of over \$4 billion of investment. These mines are of national and international significance given their large scale and low cost position and will generate economic growth and employment opportunities in Kazakhstan over the next 40 to 50 years. We are proud to be a leading developer of natural resources in Kazakhstan, working in partnership with all of our stakeholders.

## Delivering value and growth

KAZ Minerals has entered 2017 with a portfolio of first quartile assets which are expected to produce between 225 and 260 kt of copper this year and we are on track to achieve our medium-term guidance of around 300 kt in 2018, representing a compound annual growth rate of over 50% per year from 2015. Whilst the Group delivered on its strategic objectives in 2016, the market backdrop remained challenging for copper producers. Copper prices were at low levels throughout most of the year, although it was encouraging to see a recovery in November, with the LME price rising by 18% and finishing the year at \$5,501 per tonne. The strengthening

of the copper price in the fourth quarter was driven mainly by improved expectations for demand growth in China.

Following the commencement of commissioning at Bozshakol in December 2015, production began in February 2016 and after a relatively smooth ramp up, we were able to declare the project commercial in October 2016. This was a major achievement for the Group and demonstrates our ability to successfully execute projects of this scale.

Our projects division completed the construction of the Aktogay sulphide processing facilities ahead of schedule and the expected budget for the project has been reduced by \$200 million. I am delighted to report that in early 2017 we commenced production from sulphide ore. We look forward to ramping up production in 2017 and delivering the growth and highly competitive operating costs that we believe our projects can deliver.

During 2016, the Group's operational focus has been on achieving our production targets whilst maintaining strict control over costs and capital expenditure. We successfully met our production targets and we have reported first quartile net





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cash costs at Bozshakol, the East Region and Bozymchak. Sustaining capital expenditure was also managed closely, resulting in expenditure below the guidance we gave for 2016.

### Health and safety

The safety of our employees and contractors is of the utmost concern to the Board. It is disappointing to report that, although injury rates have declined slightly, there has been an increase in the number of fatalities in 2016 compared to the prior year. The Health, Safety and Environment Committee, of which I am a member, visited key sites in Kazakhstan in 2016 and it is clear that every effort is being made to improve safety performance through a number of ongoing initiatives. The goal of zero fatalities remains our highest strategic priority. We are confident that the transition to open pit mining and the implementation of enhanced safety procedures at our new operations across the Group will lead to lasting improvements in workplace safety.

### Governance

The Company is a UK incorporated, premium listed, FTSE stock with a majority free float and is subject to the full provisions of the UK Takeover Code. There were no changes to the Board in 2016. KAZ Minerals continues to comply fully with the requirements of the UK Corporate Governance Code, with more than half of the Board excluding the Chairman comprising independent non-executive Directors. We have commenced a thorough review of Board succession planning due to the current stage of the Group's development, with the Aktogay sulphide plant entering commissioning in 2016 bringing to an end the construction phase of the major growth projects.

### Managing the balance sheet

The ramp up of Bozshakol to commercial production and the commencement of output from sulphide ore at Aktogay has greatly reduced the Group's project execution risk and the growth from the major projects is improving our debt metrics. Our near-term financing priority is to continue de-gearing to more normalised levels.

Since drawing the Bozshakol and Aktogay CDB facilities, and the PXF facility that was put in place at the time of the 2014 restructuring, the Group has made debt repayments of over \$1.1 billion. We have now passed the point of peak gearing, reporting Gross EBITDA of \$492 million in 2016 and net debt of \$2,669 million at the year end. We have significantly reduced the ratio of net debt to Gross EBITDA and we expect to continue this trajectory in 2017.

KAZ Minerals' liquidity position during the ramp up period of the two projects has been supported by a new \$300 million facility with the Development Bank of Kazakhstan, obtained in December 2016. It is the Group's intention to refinance its PXF facility in the first half of 2017, in advance of which we obtained and drew an additional commitment of \$50 million in December 2016.

### Dividends

The Group's dividend policy, established at the time of Listing, is for the Board to consider the cash generation and financing requirements of the business and then to recommend a suitable dividend. This maintains flexibility which is appropriate given the underlying cyclical nature of a commodity business. The Group has a strong record of payments to shareholders,

with returns of \$2,095 million in ordinary dividends, buy-backs and special dividends since its Listing in 2005.

Whilst the outlook for the Group's financial position is positive, given the ramp up of Bozshakol and Aktogay and with net debt to EBITDA expected to fall rapidly, the Group has invested heavily in the projects and it is our near-term priority to continue to reduce our gearing metrics. Accordingly, the Board does not recommend a dividend in respect of the 2016 financial year, although it is the Board's intention that the Group resumes dividend payments in the future.

### Outlook

The progress made in bringing the major growth projects into production positioned KAZ Minerals for a period of strong organic growth, which we are now delivering. The recent recovery in copper prices is welcome and the combination of increasing output, higher prices for our products and low operating costs should generate significant value for shareholders. I look forward to reporting on our continued success and further progress towards achieving our goals in 2017.

**Simon Heale**  
Chairman

# From promise to performance



**“The ramp up of Bozshakol drove a 73% increase in copper output, to 140 kt in 2016. By the end of the year the Group's major growth projects were both operational, with commissioning of the Aktogay sulphide concentrator underway.”**

**Oleg Novachuk**  
Chief Executive

I am pleased to report another year of successful delivery against our operational targets in 2016 as we ramped up copper production from our new low cost mines. The Group's first major growth project, Bozshakol, commenced copper output in late February and within eight months we declared the project commercial. Mill throughput at Bozshakol averaged over 75% of design capacity in the fourth quarter. The ramp up of Bozshakol was the key driver of the 73% increase in copper output, to 140 kt in 2016.

The second major growth project, Aktogay, commenced commissioning of its main sulphide concentrator earlier than anticipated in December 2016 and the capital budget for the project was reduced by a total of \$200 million during the year. Production of copper from sulphide ore at Aktogay began in February 2017. The East Region and Bozymchak mines also met or exceeded production guidance across all metals in 2016, at a net cash cost of 68 US\$/lb of copper.

## Health and safety

I am disappointed to report that five fatalities occurred at our East Region operations in 2016 involving three contractors and two employees of KAZ Minerals. A contractor fatality also occurred during the construction of the sulphide concentrator at Aktogay.

The number of fatalities in 2016 has increased compared to the prior year, with three occurring as a result of a single incident. We consider all fatalities to be avoidable and we remain committed to achieving our goal of zero fatalities. The rate of fatal incidents at our operations is considerably lower today than it was five years ago and the frequency of injuries has also reduced.

We are continuing our efforts to improve health and safety performance, with initiatives in 2016 including the implementation of enhanced safety management standards and a detailed review of occupational health hazards in the East Region. We are trialling an innovative pay scheme at Aktogay aimed at incentivising safe behaviours and promoting engagement on safety issues between supervisors and their teams.

At Bozshakol, Aktogay and Bozymchak a total of over 10 million operational man-hours have been completed in the period from the commencement of copper production through to the end of 2016. During this time there have been no fatalities in the production teams at these facilities. This reflects the culture and procedures we are seeking to establish in our new assets, as well as the inherently safer nature of the work undertaken compared to underground mining. The health and safety risk profile of the Group is expected to improve as we continue our transition to becoming a business dominated by large scale, open pit operations.

## Review of operations

By the end of the year the Group's major growth projects were both operational, with Bozshakol well progressed in its ramp up and testing of the Aktogay sulphide concentrator underway.

After commencing production in February, the Bozshakol plant successfully ramped up during the year and was declared commercial in October 2016, having operated at over 60% of design capacity





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for three consecutive months. In September, we began commissioning of the separate clay plant which will ramp up during 2017.

Bozshakol contributed 45 kt of copper cathode equivalent in 2016, in line with guidance. The contribution from Bozshakol was the key driver behind the 73% increase in Group copper cathode equivalent production, from 81 kt in 2015 to 140 kt in 2016.

At Aktogay we completed construction of the main sulphide concentrator and commenced commissioning works in December 2016, followed by the production of copper concentrate from sulphide ore in February 2017. The oxide facilities at Aktogay completed their first full year of operations and produced 18 kt of copper cathode at a cash cost of 114 US\$/lb. The capital budget for Aktogay was reduced by a total of \$200 million in 2016 to \$2,100 million, due to a combination of the early delivery of the project, partial release of contingency, efficiency gains from lessons learnt during the construction of Bozshakol and a local supplier strategy, which delivered lower expenditure in dollar terms following the devaluation of the tenge in the second half of 2015.

Our operations in the East Region and Bozymchak achieved or exceeded production guidance across all metals at a net cash cost of 68 US\$/lb, benefiting from higher by-product prices compared to the prior year, the weaker tenge and cost saving measures implemented by management.

### Production outlook

With the two new mines in ramp up accounting for the majority of the Group's output in 2017 it is prudent to give a wide

range for copper production guidance as we enter the new financial year.

In 2017, work on the flotation process at Bozshakol will be conducted to optimise recoveries and raise output to design levels. The mine is expected to achieve its full capacity in the second half of the year and to produce 95-110 kt of payable copper in concentrate in 2017.

The ramp up of the sulphide concentrator at Aktogay should benefit from the experience gained at Bozshakol and production from Aktogay sulphide during 2017 is therefore expected to be 45-65 kt of payable copper in concentrate. We aim to achieve commercial levels of production at the Aktogay sulphide plant in the second half of 2017. The oxide facilities at Aktogay are now fully ramped up and are expected to deliver increased output of around 20 kt of copper cathode in 2017.

The East Region and Bozymchak are guided to contribute around 65 kt of copper cathode to Group production, as the Yubileyno-Snegirikhinsky mine ceased operations in December 2016 and the largest mine in the East Region, Orlovsky, will operate on a six-day week to accommodate maintenance works throughout 2017. Group copper production guidance<sup>1</sup> for 2017 is therefore set at 225-260 kt.

Gold production is expected to be 85-110 koz of payable gold in concentrate at Bozshakol and together with 50-60 koz of gold bar from the East Region and Bozymchak, Group gold production<sup>1</sup> guidance for 2017 is set at 135-170 koz. Silver production<sup>1</sup> is expected to be between 2,750-3,000 koz, with

approximately 500 koz of payable silver in concentrate from Bozshakol and 2,250-2,500 koz of silver bar from the East Region and Bozymchak. Zinc in concentrate production guidance for the East Region is set at 70-75 kt as the full year effect of the six-day week at Orlovsky will result in lower output compared to 2016.

### Financial performance

In 2016, the Group generated revenues of \$766 million, excluding sales from Bozshakol and the Aktogay oxide project during the pre-commercial stages of their ramp up, representing an increase of 15% compared to 2015. Gross Revenue in 2016 was \$969 million, including \$203 million of pre-commercial sales from the new projects, an increase of 43% compared to 2015. The increase in revenues was driven by higher sales volumes of copper and gold and increased prices for zinc, gold and silver, offset by a 12% reduction in the average market price of copper and a 20% decrease in zinc output in 2016 compared to the prior year.

In response to low commodity prices the Group sought additional efficiencies and for the third consecutive year we have reported lower operating costs, with a first quartile Group net cash cost in 2016 of 59 US\$/lb. Costs have reduced as we transition to large scale, open pit mining and due to the devaluation of the tenge which occurred in the second half of 2015. Cost and efficiency measures previously implemented in the

<sup>1</sup> Copper, gold and silver production used for the 2017 guidance is payable metal in concentrate produced plus finished metal production.

**“In 2016 we have established KAZ Minerals as a high growth and low cost copper producer.”**

East Region have had a full year effect in 2016 and net cash costs benefited from increased prices for our by-products of zinc, gold and silver during the year. Our portfolio of assets has positioned KAZ Minerals amongst the lowest cost pure-play copper producers globally.

Our major growth projects delivered a strong cost performance in 2016, with Aktogay oxide recording a gross cash cost of 114 US\$/lb and Bozshakol a temporarily low 106 US\$/lb, significantly below guidance of 140-160 US\$/lb. Assisted by strong gold bar equivalent output of 60 koz and an average gold price of \$1,251/oz in 2016, the net cash cost of copper at Bozshakol was 27 US\$/lb. Bozshakol has benefited from high ore grades, low maintenance costs on new equipment and a number of other supporting factors in its first ramp up year. Low operating costs enabled the Group to generate EBITDA (excluding special items) of \$351 million and Gross EBITDA (including pre-commercial EBITDA from Bozshakol and Aktogay oxide) of \$492 million in 2016.

We have sought to reduce or defer sustaining and expansionary capital expenditure where possible. Sustaining capital expenditure in the East Region and Bozymchak in 2016 amounted to \$50 million against guidance at the start of the year of \$80-90 million. Expansionary capital expenditure across all assets in 2016 totalled \$273 million against initial guidance of \$575 million, with over half of the reduction resulting from previously announced revisions to the capital budget and phasing of payments for the construction of the Aktogay project.

### Financial guidance

Expansionary capital expenditure in 2017 is expected to be approximately \$415 million consisting of \$265 million for Aktogay, \$100 million of final payments at Bozshakol, \$30 million for works on the Artemyevsky II mine extension and \$20 million on other projects including further studies at Koksay and on a potential new smelter in Kazakhstan. For the smelter project we are assessing non-recourse financing options and the potential for partnering.

Sustaining capital expenditure at the East Region and Bozymchak is expected to be approximately \$70 million whilst Bozshakol will require in the region of \$30 million in 2017. Aktogay is expected to require \$20 million of sustaining capital expenditure.

The devaluation of the tenge in 2015 has resulted in inflationary pressures on costs in the second half of 2016 and these are expected to continue in 2017. At Bozshakol, the factors driving low operating costs in the first year of ramp up are not expected to continue in the coming year and gross cash

costs are expected to rise to 125-145 US\$/lb in 2017. At Aktogay, the combined oxide and sulphide facilities are expected to deliver a gross cash cost of 125-145 US\$/lb. The East Region and Bozymchak will experience higher unit costs as a result of lower production levels, with gross cash costs estimated at between 230 and 250 US\$/lb in 2017.

### Outlook

In 2016 we have established KAZ Minerals as a high growth and low cost copper producer. The key operational priorities in 2017 are to achieve full design capacity at Bozshakol and for the Aktogay sulphide plant to reach commercial levels of production in the second half of the year. Looking forward, our production growth is set to continue as we complete the ramp up of Bozshakol and Aktogay and progress towards our medium-term copper production target of 300 kt in 2018.

**Oleg Novachuk**  
Chief Executive



# Improved copper fundamentals

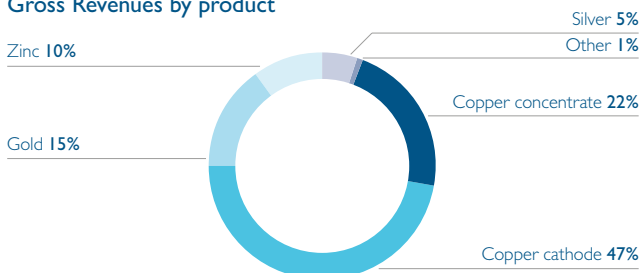
## Our products

In 2016, sales of copper generated 69% of Gross Revenues with the remaining revenues from the Group's by-products of gold, zinc and silver.

Around 70% of gross copper revenues were from the sale of copper cathodes, with the remainder from the sale of copper concentrate. The sulphide plant at Bozshakol commenced the sale of copper concentrates in March 2016. A full year of production from the sulphide plant, in addition to production from the separate clay plant, commissioned in September 2016, will see an increase in revenues from copper concentrate sales in 2017. At Aktogay, the sulphide concentrator commenced commissioning in December 2016 with production of saleable copper concentrate expected in the first quarter of 2017. The copper concentrate from Bozshakol includes by-products of gold and silver.

Production of copper cathodes from oxide ore at Aktogay began in December 2015 and is sold to customers alongside the cathodes from East Region and Bozymchak. The operations in the East Region and at Bozymchak produce copper concentrate which also contains gold and silver content as by-products. The copper concentrate from the East Region and Bozymchak is toll processed at the Balkhash smelter into finished products of copper cathode, gold bars and silver bars. The East Region also produces zinc concentrate.

## Gross Revenues by product

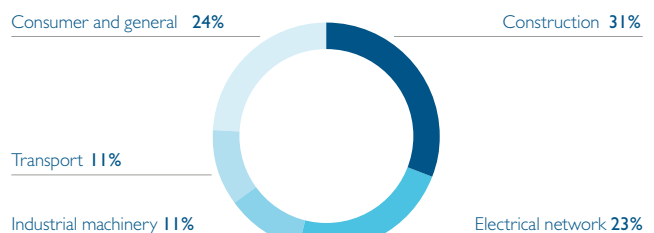


## Copper

Copper is used in a wide range of sectors and industries as it is a good conductor and has many electrical and thermal applications. The construction sector continues to be the single biggest consumer of copper and together with the consumer product sector accounts for 55% of demand. The remaining copper demand is from electrical networks, transport and industrial machinery.

The price of copper is impacted by global supply-demand fundamentals as well as the activities of financial investors. The price can therefore be volatile and cyclical, with the outlook for the Chinese economy of particular significance as China currently consumes around 48% of refined copper. Copper is produced around the world and derived primarily from mines. South America is the biggest producer and together with the US, Australia, China and the Democratic Republic of Congo supplies over two thirds of global production. Secondary copper materials, such as scrap, also provide an important alternative source of copper material for the refined copper production process.

## Global copper consumption by market sector



Source: Wood Mackenzie, 2015 consumption

## By-products

Gold is used as an investment asset and for jewellery and various industrial and electronic applications.

Silver has similar demand fundamentals to gold but with a higher exposure to industrial applications which results in increased price volatility. Benchmark prices for both gold and silver are generally based on LBMA quotations.

Approximately 50% of world zinc production is used in the construction sector. It is also used in industrial machinery, electronics and consumer products. Pricing of zinc concentrate is based on the LME zinc price, less processing charges.

## Market environment

### Average price movement in 2016



Average price quoted on the LME and LBMA exchanges compared to 2015.

Source: Bloomberg

## Copper

### 2016 market performance

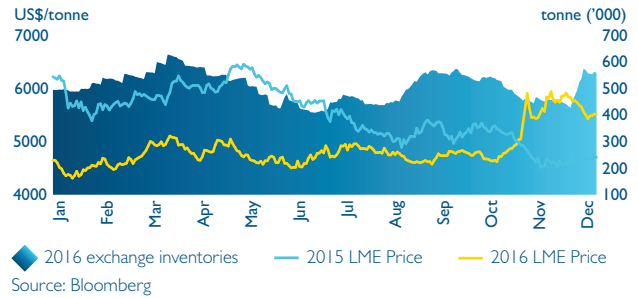
Copper began 2016 under pressure from negative market sentiment, reflecting continuing concerns over the global economic outlook and Chinese demand. The LME copper price fell to a six year low of \$4,311/t in January, following which it recovered to trade for much of the year in a relatively narrow range of \$4,500/t-\$5,000/t.

Sentiment turned sharply positive in November with LME copper briefly trading above \$6,000/t, a 17-month high, due to stronger than expected demand, supply disruptions and miners lowering production guidance. In particular, Chinese demand was stronger than expected, supported by fiscal stimulus and growth in the electrical network, appliance and transport sectors. The Chinese manufacturing purchasing manager's index (PMI) was at its highest level in four years during November. Demand expectations also improved following the US presidential election and the possibility of infrastructure stimulus and pro-industry policies. These factors resulted in speculative money entering the market, further strengthening prices.

The copper price ended the year at \$5,501/t, below the highs experienced in November; impacted by a stronger dollar and increase in inventory levels. Whilst copper prices and sentiment were much improved at the end of 2016, the year's average LME copper price of \$4,860/t was 12% lower than the 2015 average of \$5,495/t.

The refined copper market remained tight during 2016 and is expected to have recorded a small supply surplus, equating to around 1% of global consumption. This would represent the sixth consecutive year of supply surplus. Copper mine production is estimated to have increased by 3.8% during 2016, despite production disruptions during the second half of the year and reflecting growth from new projects that continue to ramp up. Global refined copper consumption was higher than had previously been anticipated, with growth of 2.0%, up from 1.3% recorded in 2015 due to stronger Chinese demand and tight scrap supply.

### Copper price and exchange inventories



## Outlook

The positive sentiment at the end of 2016 has improved the short and medium-term outlook for copper. Whereas previously there was a broad consensus that the copper market would move into supply deficit at some point between 2018-2020, some analysts now predict a small deficit occurring from 2017.

In China, the demand outlook has improved. Electrical grid investment is expected to continue, growth is forecast in the copper intensive wind and solar power sectors and an extension of automotive tax cuts into 2017 could further support copper consumption. In the US, potential future fiscal stimulus and infrastructure investment could also raise copper demand. Whilst 2016 has had limited production disruption by historic standards, a number of specific labour and regulatory issues around the world have the potential to disrupt supply in 2017.

The copper market is expected to remain tight over the next few years and it is forecast that a significant market deficit will emerge from 2019/2020. The depletion of existing mines, falling head grades and limited capital investment in recent years is expected to result in lower levels of production whilst demand is expected to rise.

Annual contracts for over 80% of the Group's 2017 cathode volumes have been agreed with Chinese and European customers. Copper cathode is sold at a provisional LME price which is adjusted to a final price, typically one month after delivery. As in previous years, up to 20% of expected cathode production is not contracted and will be available for sale at spot prices to cover monthly production variances during 2017.

Copper concentrate from Bozshakol and Aktogay has been contracted to a single trader for 2017. The counterparty, Advaita Trade Private Ltd ('Advaita') is part of an independent metals trading group founded in 2014 by former employees of the Group with significant experience in marketing the metals the Group produces to China and Europe. Advaita also purchases copper material from companies owned by Cuprum Holding, the entity to which the Disposal Assets were transferred, and is working with other producers in the region. The sales arrangement will



allow the Group to benefit from better sales terms and economies of scale on logistics. The Group will develop the sales strategy for its products jointly with Advaita and through joint marketing the Group will continue to maintain relationships with key end customers.

Copper concentrate is sold on a provisional LME copper price, less treatment and refining charges (TC/RCs). The provisional LME copper price is adjusted to a final price, typically the average of the month eight weeks after delivery. Spot Chinese TC/RCs fell in late 2016 in anticipation of a tightening market in 2017 as smelters seek to secure supply following production disruptions. The annual benchmark TC/RC fell to \$92.5/t, a decrease of around 5% from 2016. Chinese smelter utilisation rates remain below historical levels and China continues to target continued growth in smelting capacity.

#### Gold and silver

##### 2016 market performance

The average gold price was \$1,251 per ounce in 2016, 8% above the average price in 2015. Gold finished 2016 where it started the year, at a price of around \$1,100 per ounce. Gold experienced a rally in the first half of 2016, reaching a high of \$1,325 per ounce on the back of negative sentiment surrounding the Euro area, the Brexit vote and the uncertainty of the timing of US interest rate rises. These gains were reversed in the fourth quarter of 2016 due to improved investor sentiment following the US presidential election, an increase in interest rates and higher bond yields.

As a precious metal with similar fundamentals, silver performed in line with gold, averaging \$17.1 per ounce in 2016, an 9% increase from 2015. The silver price was also impacted by poor investor sentiment arising from an oversupplied market, with miners increasing output whilst industrial demand remained soft.

#### Outlook

The gold and silver outlook for 2017 will be dependent upon the US dollar and expected US Federal Reserve interest rate rises, the global economic outlook and inflationary expectations. Prices could benefit from any increase in inflation or any increase in uncertainty for the global economic outlook, including the Euro zone where elections and Brexit negotiations could impact investor sentiment, or from the possibility of protectionist trade measures in the US following the presidential election. In the medium-term, silver prices could benefit from a reduction in supply as a proportion of current production is estimated to be loss making at current prices.

The copper concentrate produced by Bozshakol contains gold and silver which forms part of the copper concentrate sales terms. Gold bar production from the East Region and Bozymchak will be sold in 2017 to the National Bank of Kazakhstan, as required by Kazakhstan, based on the LBMA price at the time of delivery. Silver bar production will be sold to traders based in Asia for delivery to Europe and Asia under annual contracts based on the LBMA price plus a premium at the time of delivery.

#### Zinc

##### 2016 market performance

Zinc was the strongest performer among the base metals in 2016 with an average price of \$2,095/t in 2016, 9% above the average price in 2015. The zinc price has been supported by a lack of mine supply growth which led to the market for concentrates moving from a small surplus in 2015 into sizeable deficit in 2016 and was also reflected in lower treatment charges.

#### Outlook

The outlook for zinc is positive due to the metal's strong medium-term fundamentals. There are no large advanced stage development projects in the pipeline to replace mine closures and cutbacks. With demand growth expected to outstrip supply the market is forecast to remain in deficit in 2017, supported by a shortage of concentrates, which could translate into higher zinc prices.

The Group has concluded its annual zinc concentrate contracts for 2017 and will sell three-quarters of zinc concentrate production from the East Region within the CIS, with the remaining output sold to China. Pricing of the zinc concentrate sales will be based on the LME zinc price less processing charges which are set on an annual basis.

# Our strategic framework

Our strategy is reviewed by the Board on an ongoing basis to ensure that it remains relevant to the Group's requirements.

The success of the strategy is measured using relevant KPIs and risks are controlled through the risk management framework.

## VISION

To develop ourselves as a leading natural resources company in Central Asia, combining international standards with the exceptional mineral opportunities available in the region.

## OBJECTIVES

To deliver value for our shareholders with a strong commitment to the safety of our employees, the environment and the communities around us.

## KPIs

- EBITDA (excluding special items)
- Free Cash Flow
- Earnings per share based on Underlying Profit
- Ore output
- Net cash cost of copper sold
- Copper cathode equivalent production from own material
- Maintenance spend per tonne of copper cathode produced
- Number of fatalities
- Total Recordable Injury Frequency Rate (TRIFR)

## DELIVER MAJOR GROWTH PROJECTS



We aim to replace existing reserves and deliver growth in output by investing in projects that add value to our portfolio.

### Relevant KPIs

- EBITDA (excluding special items)
- Ore output
- Net cash cost of copper sold
- Copper cathode equivalent production from own material
- Maintenance spend per tonne of copper cathode produced
- Number of fatalities
- Total Recordable Injury Frequency Rate

## OPTIMISE EXISTING ASSETS



In 2016 we have improved the cost position of our existing assets. We continue to seek further efficiencies wherever possible.

### Relevant KPIs

- EBITDA (excluding special items)
- Ore output
- Net cash cost of copper sold
- Copper cathode equivalent production from own material
- Maintenance spend per tonne of copper cathode produced
- Number of fatalities
- Total Recordable Injury Frequency Rate

## TAKE ADVANTAGE OF NATURAL RESOURCE OPPORTUNITIES



We may seek out and acquire attractive, undeveloped natural resource assets principally in the Central Asia region.

## BE A SOCIALLY RESPONSIBLE OPERATOR







For more information, see pages

22 Key Performance Indicators

25 Operating Review

## Stated priorities for 2016

## Progress in 2016

## Priorities for 2017

### Bozshakol

- Achieve commercial levels of production in the second half of 2016

### Aktogay

- Ramp up oxide production to 15 kt of copper cathode
- Progress sulphide plant construction

### Bozshakol

- Declared commercial 27 October
- Achieved 75% ore throughput in the fourth quarter of 2016

### Aktogay

- Produced 18 kt of copper cathode from oxide ore in 2016
- Sulphide concentrator commissioning commenced ahead of schedule, in December

### Health and safety

- Higher risk construction phase completed

### Bozshakol

- Ramp up sulphide concentrator to design capacity
- Ramp up clay plant

### Aktogay

- Ramp up sulphide concentrator
- Achieve commercial levels of production in the second half of 2017
- Deliver 20 kt production from oxide ore

### Smelter project

- Continue project studies
- Assess financing options

- Optimise East Region producing assets
- Operate Bozymchak at design capacity
- Maintain low cost position
- Evaluate East Region mine life extensions
- Manage closure of Yubileyno-Snegirikhinsky mine
- Improve health and safety performance

- East Region and Bozymchak cash costs reduced through tenge devaluation and efficiency measures
- East Region and Bozymchak net cash cost of 68 US\$/lb in 2016
- Bozymchak operated at design capacity throughout 2016
- Artemyevsky II expansion project studies progressed
- Yubileyno-Snegirikhinsky closed in December
- Zero fatalities in open pit operations

### East Region

- Evaluate mine life extensions and nearby greenfield site potential
- Yubileyno-Snegirikhinsky mine site liquidation
- Seek operational efficiencies to manage costs

### Bozymchak

- Evaluate potential additional resources
- Seek operational efficiencies to manage costs

### Health and safety

- Target zero fatalities
- Reduce injury rate

- Existing assets and major growth projects will take precedence
- Consider partnership at projects
- Koksay scoping study

- Studies progressed on Artemyevsky II expansion and Koksay

- Evaluate any new opportunities identified
- Consider options for the future development of Koksay

- Improve health and safety performance
- Minimise environmental impact

- Injury rate reduced
- Enhanced safety standards launched
- CO<sub>2</sub> intensity reduced

- Target zero fatalities
- Reduce injury rate
- Improve energy efficiency and CO<sub>2</sub> intensity

# Measuring our progress

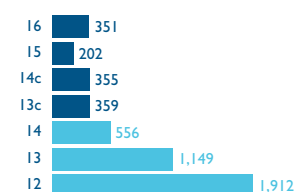
The Group uses a set of Key Performance Indicators (KPIs) to monitor performance with the aim of delivering the strategic objectives set out on page 20.

The Group's KPIs are regularly reviewed to ensure they remain relevant and are aligned with the Group's strategy and objectives. The suitability and relevance of these KPIs will continue to be monitored in the future. The remuneration of the Executive Directors is linked to the Group's performance as the annual bonus plan targets are aligned to the Group's KPIs and strategic priorities.

## OBJECTIVES DELIVER VALUE FOR OUR SHAREHOLDERS

**EBITDA**  
(excluding special items)  
(\$ million)

351



### Relevance

This is a measure of the underlying profitability of the Group, widely used in the mining sector.

### How we measure

EBITDA is earnings before interest, taxation, the non-cash component of the disability benefits obligation, depreciation, depletion, amortisation, mineral extraction tax and royalties, as adjusted for special items.

### 2016 Performance

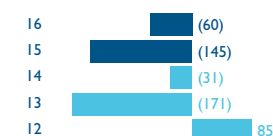
EBITDA (excluding special items) increased by \$149 million compared to 2015, with a \$47 million increase in EBITDA from Bozshakol which was operating at design capacity throughout 2016, and the first profit contributions from Aktogay oxide and Bozshakol sulphide which achieved commercial production on 1 July 2016 and 27 October 2016 respectively.

Aktogay oxide reported EBITDA of \$29 million, which excludes \$4 million capitalised during the period prior to commercial production. Bozshakol achieved an EBITDA of \$67 million in 2016 from commercial production in the final two months of the year, with \$137 million from the first 10 months capitalised.

The East Region's EBITDA declined by 3% compared to the prior year to \$227 million as lower copper prices and sales volumes were partially mitigated by cost reductions resulting from a weaker tenge and ongoing cost saving initiatives.

**Free Cash Flow**  
(\$ million)

(60)



### Relevance

Monitors Group cash flows used to reduce debt, fund returns to shareholders and invest in the future growth and development of the business.

### How we measure

Net cash flow from operating activities before capital expenditure and non-current VAT associated with expansionary and new projects less sustaining capital expenditure.

### 2016 Performance

Group Free Cash Flow for the year improved by \$85 million compared to 2015, reflecting the higher level of profitability in 2016.

The Group sought to postpone sustaining capital expenditure where possible and reported investment of \$51 million, \$17 million below the prior year.

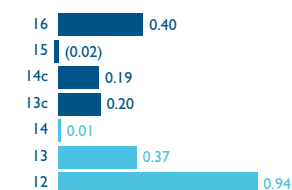
The ramp up of the new projects has raised working capital requirements with a working capital outflow of \$73 million in 2016 (2015: \$37 million).

MET payments increased by \$19 million with higher extraction volumes due to output at Bozshakol and Aktogay.

Interest paid rose compared to the 2015 due to higher borrowing costs. Interest payments of \$179 million (2015: \$147 million) were incurred largely in respect of the major growth projects.

**Earnings per share based on underlying profit**  
(\$)

0.40



### Relevance

EPS based on Underlying Profit can be used as an indication of profits available to shareholders for distribution or retention in the business.

### How we measure

Profit/(loss) before special items and other non-recurring or variable non-trading items, and their resulting taxation impact, divided by the weighted average number of ordinary shares in issue during the year.

### 2016 Performance

Underlying EPS was \$0.40 per share compared to a loss of \$0.02 in the prior year. Underlying profit improved by \$190 million primarily due to a revenue driven \$128 million increase in operating profit. The Group benefited from the commencement of sales at Bozshakol and Aktogay oxide, accompanied by strong cost control.

Foreign exchange movements also contributed to the increase in Underlying EPS with a net foreign exchange gain of \$38 million in 2016 compared with a net loss of \$60 million in the prior year, which resulted from the devaluation of the Kazakhstan tenge and Kyrgyz som during the second half of 2015.

Interest costs were \$19 million higher than in the prior year with the interest on borrowings relating to the Aktogay oxide and Bozshakol sulphide operations being expensed in the income statement from the date the operations achieved commercial production.

◆ I4C represents continuing operations only in 2014.

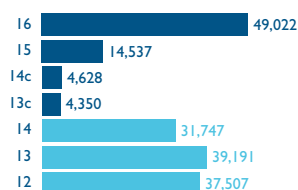
◆ I3C represents continuing operations only in 2013.



## STRATEGIC PRIORITIES OPTIMISE EXISTING ASSETS AND DELIVER GROWTH PROJECTS

### Ore output (kt)

49,022



#### Relevance

Ore output indicates our ability to maximise production from existing assets and the growth projects. This KPI should be considered alongside other measures including production costs and maintenance spend, to ensure extraction is valuable.

#### How we measure

Kilotonnes of ore extracted from our mining operations.

#### 2016 Performance

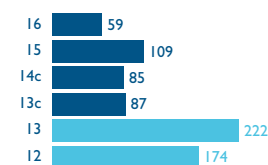
Ore output in 2016 has increased by more than three times compared to 2015 with increased extraction at the two major projects. At Bozshakol, 28,272 kt was extracted (2015: 7,099 kt) of which 14,886 kt was clay bearing ore stockpiled for future processing at the clay plant and 13,386 kt was ore mined to feed the sulphide concentrator. Extraction at Aktogay of 16,086 kt (2015: 3,003 kt), was largely oxide ore for placing on heap leach cells and to expose the sulphide ore body to support the ramp up of the concentrator.

Ore extraction at the East Region and Bozymchak mines increased by 5% to 4,664 kt, as a 486 kt increase from the fully ramped up Bozymchak mine offset a 257 kt decline from the East Region, as Yubileyno-Snegirikhinsky mine was fully depleted in December 2016 and output was restricted at Orlovsky mine due to ongoing ventilation shaft maintenance.

In 2017, it is the Group's intention to adopt a processing KPI to replace ore output, to reflect the focus of management on ramping up the two major projects.

### Net cash cost of copper sold (USc/lb)

59



#### Relevance

This measures the performance of the Group in maintaining its low cost base whilst maximising revenues through the sale of by-products.

#### How we measure

Cash operating costs, excluding purchased copper products, less by-product revenues, divided by the volume of own copper cathode equivalent sales. Net cash cost is calculated over the full year including the periods prior to the achievement of commercial production.

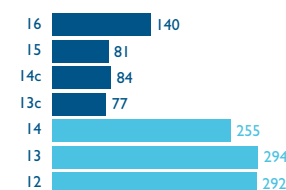
#### 2016 Performance

The 2016 net cash cost of 59 USc/lb was below the Group's net cash cost in 2015. Excluding the impact of by-product credits, the Group's gross cash cost in 2016 of 156 USc/lb has reduced compared to 230 USc/lb in 2015, reflecting the inclusion of the low cost Aktogay oxide and Bozshakol sulphide operations in 2016 and the beneficial impact of the weakening of the Kazakhstan tenge.

Bozshakol reported a gross cash cost of 106 USc/lb in its first year of operation and after the deduction of gold and silver by-product revenues, a net cash cost of 27 USc/lb. Aktogay oxide, also in its first year, recorded gross and net cash costs of 114 USc/lb with no by-products. The East Region benefited from the tenge devaluation and cost saving measures, and together with Bozymchak, reported a combined gross cash cost of 191 USc/lb (2015: 230 USc/lb) and a net cash cost of 68 USc/lb (2015: 109 USc/lb).

### Copper cathode equivalent production from own material (kt)

140



#### Relevance

Copper, the Group's principal product, represents 69% of Gross Revenue and is the main operational indicator.

#### How we measure

Copper cathode equivalent produced from own ore either as refined copper cathodes or as recoverable copper in concentrate sold.

#### 2016 Performance

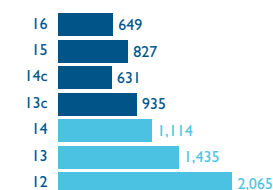
Cathode equivalent production in 2016 of 140 kt rose by 59 kt compared to 2015, driven by production from the major projects with 18 kt of copper cathode output from Aktogay oxide (2015: 0.4 kt) and 45 kt of copper cathode equivalent production from Bozshakol sulphide (2015: nil). Bozymchak produced 7.2 kt of copper cathode equivalent (2015: 2.2 kt), with a full year of operating at 100% of design capacity in 2016.

East Region cathode output has fallen from 78.5 kt in 2015 to 70.2 kt in 2016 with lower copper in concentrate production from the Orlovsky mine which is operating a six-day week due to ventilation shaft maintenance and delays in processing Yubileyno-Snegirikhinsky ore due to road repairs.

In 2017, the Group will move to a copper production KPI, defined as the payable copper metal in concentrate and cathode produced.

### Maintenance spend per tonne of copper cathode produced (\$/t)

649



#### Relevance

Indicates how much cash flow is required to maintain current output and how efficient we are at controlling capital expenditure.

#### How we measure

Sustaining capital expenditure for our mining operations, divided by copper cathode equivalent production volumes. In 2016 the KPI includes only production and capital expenditure from the established operating mines of the East Region and Bozymchak.

#### 2016 Performance

Maintenance spend per tonne of cathode has decreased by 22% compared to 2015 with lower sustaining capital expenditure in the year. East Region and Bozymchak sustaining capital expenditure of \$50 million was \$17 million lower than in 2015, and below the guided range of \$70 million to \$80 million, with capital expenditure being deferred where possible.

Capital expenditure included ongoing improvements to ventilation at Orlovsky mine, the modernisation of the Nikolayevsky concentrator which was completed in 2016, replacement of mining fleet and stripping works at the Bozymchak open pit mine.

This KPI will include Bozshakol and Aktogay in the future as their operations become established.



“Health and safety is of primary concern to the management and Board of KAZ Minerals. Over the last five years we have made significant efforts aimed at improving our performance in this vital area.”

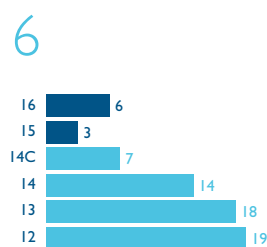
We have been able to reduce the rate of fatalities to much lower levels over this time period, though I am disappointed to report that there has been an increase this year, compared to 2015.

The health and safety risk profile of the Group is set to improve as we transition to open pit mining at our new assets, Bozshakol and Aktogay. We will continue to strive for improvements in our East Region mines and our goal is zero fatalities across all of our operations.

**Oleg Novachuk**  
Chief Executive

### HEALTH AND SAFETY TARGET ZERO FATALITIES

#### Number of fatalities (employees and contractors)



#### Relevance

A key measure of the Group's operational health and safety performance.

#### How we measure

The number of employee and contractor fatalities directly occurring from an occupational injury or disease at the Group's operations during the year. The definition of an occupational fatality is taken from the ICMM health and safety performance indicators published in January 2014, which the Group adopted in 2015.

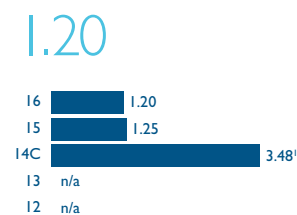
#### 2016 performance

Six fatalities occurred in 2016, involving three contractors and three employees, compared to three fatalities in 2015 and seven in continuing operations in 2014. KAZ Minerals considers all fatalities to be avoidable and has a target of zero fatalities.

The overall number and frequency of fatal incidents remains significantly lower than five years ago. Three of the six fatalities reported in 2016 resulted from a single incident. Five of the six fatalities occurred in the East Region assets and there was one construction fatality at Aktogay. No fatalities have occurred in any of the operational teams at Bozshakol, Aktogay or Bozymchak from the commencement of production through to the end of 2016.

The Group has implemented enhanced safety standards in 2016 and conducted a review of occupational health risks in the East Region. We are also trialling a new pay scheme at the Aktogay project aimed at incentivising safe behaviour and greater engagement between management and staff on safety issues.

#### Total Recordable Injury Frequency Rate (TRIFR)



#### Relevance

TRIFR measures the frequency of occupational injuries occurring at the Group's operations and is therefore a key indicator of our health and safety performance.

#### How we measure

The number of Total Recordable Injury (TRI) cases occurring for every million man-hours worked during the year. The definitions of TRI and TRIFR are taken from the ICMM health and safety performance indicators published in January 2014.

Historically, the Group reported injury rates as LTIFR (lost time injury frequency rate). Following the adoption of the ICMM indicators, the Group has stated its injury statistics from 2014 onwards as TRIFR. TRI data is not available for 2013 and 2012.

#### 2016 performance

There were 51 TRI cases in 2016, in line with 2015. The number of hours worked increased from 40.8 million to 42.5 million, resulting in a reduction in TRIFR to 1.20 (2015: 1.25).

The leading causes of injury in 2016 were falls from height (eight cases), falls from same height (seven cases) and manual handling of tools (six cases). The enhanced safety procedures being implemented by the Group will seek to address these and other key risk areas by introducing stricter controls on working practices.

<sup>1</sup> ICMM definitions for TRIFR were adopted by the Group in 2015. The 2014 TRIFR for continuing operations has been estimated by applying the new injury definition to available historic data.

◆ I4C represents continuing operations only in 2014.



# Review of operations

The Group's operations in 2016 included four mines and three concentrators in the East Region of Kazakhstan, the Bozymchak copper-gold mine in Kyrgyzstan, the Bozshakol open pit copper mine in the Pavlodar region of Kazakhstan and the Aktogay open pit copper mine in the eastern region of Kazakhstan.

## Group finished products

kt (unless otherwise stated)	2016	2015
Copper cathode equivalent production	<b>140.3</b>	81.1
Bozshakol	<b>44.8</b>	–
Aktogay	<b>18.1</b>	0.4
East Region and Bozymchak	<b>77.4</b>	80.7
Zinc in concentrate	<b>75.4</b>	94.3
Gold bar equivalent (koz)	<b>119.7</b>	34.6
Silver bar equivalent (koz)	<b>3,103</b>	3,135

Group copper cathode equivalent production in 2016 of 140.3 kt was in line with market guidance and a 73% increase from the prior year as the new projects Bozshakol and Aktogay contributed 62.9 kt of production. Bozshakol commenced production in February 2016 contributing 44.8 kt of copper cathode equivalent as the sulphide operations ramped up and were declared commercial on 27 October 2016. Aktogay oxide operations ramped up successfully during 2016 with copper cathode production of 18.1 kt. The East Region and Bozymchak operations produced 77.4 kt of copper cathode equivalent for the year, above guidance but below the prior year as higher output from the optimised Bozymchak mine only partially offset lower volumes from the East Region. By-product output was ahead of guidance for all metals with the large increase in gold output due to the commencement of production at Bozshakol and increased output from Bozymchak.

## Group financial summary

\$ million (unless otherwise stated)	2016	2015
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	<b>141</b>	84
Gold bar equivalent (koz)	<b>120</b>	35
Silver bar equivalent (koz)	<b>3,026</b>	3,048
Zinc in concentrate (kt)	<b>75</b>	96
Gross Revenues <sup>1</sup>	<b>969</b>	677
Gross EBITDA (excluding special items) <sup>1</sup>	<b>492</b>	208
EBITDA (excluding special items)	<b>351</b>	202
Gross cash costs (US\$/lb) <sup>1</sup>	<b>156</b>	230
Net cash costs (US\$/lb) <sup>1</sup>	<b>59</b>	109

<sup>1</sup> Includes all operations for the full year, including during the period of pre-commercial production.

Gross Revenues increased by 43% to \$969 million from the prior year, driven by the volume growth from Bozshakol and Aktogay. This more than offset the 12% reduction in the average LME copper price. Gross EBITDA increased by 137% benefitting from the higher Gross Revenues as well as a reduction in cash costs at East Region and low cash costs at Bozshakol during the first year of operations. The Group recorded a gross and net cash cost of 156 US\$/lb and 59 US\$/lb for the year, placing the Group's operations competitively amongst pure-play copper producers.

## BOZSHAKOL

The Bozshakol mine and on-site processing facilities in the north of Kazakhstan is one of the Group's two major growth projects. Bozshakol has an annual ore processing capacity of 30 million tonnes and a mine life of 40 years at a copper grade of 0.36%.

2016 was a landmark year for the project as the first production and sale of copper in concentrate was achieved from sulphide operations in the first quarter. The ramp up of the sulphide concentrator progressed well during the year, averaging over 75% of design throughput in the fourth quarter of 2016. Full capacity is expected to be achieved during 2017. The separate clay plant, which has a processing capacity of 5 million tonnes, was completed during the year and commissioning works began on 29 September 2016. Construction activities at Bozshakol are now largely complete with management focused on raising output to design levels.

## Production summary

kt (unless otherwise stated)	2016	2015
Ore output	<b>28,272</b>	7,099
Copper grade (%)	<b>0.58</b>	0.69
Sulphide ore grade	<b>0.57</b>	0.52
Clay ore grade	<b>0.60</b>	0.70
Copper in ore mined	<b>164.6</b>	48.7
Gold grade (g/t)	<b>0.30</b>	0.31
Gold in ore mined (koz)	<b>270.1</b>	70.0
Silver grade (g/t)	<b>1.5</b>	2.1
Silver in ore mined (koz)	<b>1,361</b>	469

Mining at Bozshakol began in the second half of 2015 and increased significantly during 2016 to support the sulphide concentrator. By the end of 2016, the pace of mining activity approached the level required to supply the ore processing capacity of 30 million tonnes per annum. The 28,272 kt of ore extracted in 2016 included 13,386 kt of sulphide ore and 14,886 kt of clay ore. The clay ore has been stockpiled for processing at the now commissioned clay plant. At 31 December 2016, 21,266 kt of clay material has been stockpiled with an average copper grade of 0.63%.



For more information, see pages

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The copper grade averaged 0.58% from sulphide and clay ore during the year and was above the life of mine grade as operations in the initial years are focused on the higher copper grade zones of the deposit. The deposit also contains gold, silver and molybdenum. The gold grade in 2016 averaged 0.30 g/t and is expected to reduce somewhat in 2017 although, like copper, the grade is above the life of mine average during the initial years of operations.

## Processing

kt (unless otherwise stated)	2016	2015
Copper in concentrate	50.3	—
Copper cathode equivalent <sup>1</sup>	44.8	—
Gold in concentrate (koz)	68.0	—
Gold bar equivalent (koz) <sup>1</sup>	59.6	—
Silver in concentrate (koz)	338.0	—
Silver bar equivalent (koz) <sup>1</sup>	285.8	—

<sup>1</sup> Includes finished metal equivalent of concentrate sold in the period.

Bozshakol began production of copper in concentrate from sulphide operations in February 2016. Ore throughput has increased during the year with no major issues encountered during commissioning. Following three consecutive months of operations at or above 60% of design ore throughput levels, sulphide operations were declared commercial on 27 October 2016. Ore throughput in the fourth quarter averaged above 75% of design, with higher levels achieved in October followed by reduced throughput in November due to shutdowns for planned commissioning activities. The focus for 2017 is to increase ore throughput to design capacity and maximise metal recoveries.

Bozshakol recorded copper cathode equivalent of 44.8 kt and gold bar equivalent of 59.6 koz for the year, calculated as the payable metal equivalent of the concentrate sold. In addition, the silver in concentrate achieved in flotation was at a commercially payable level from the start of operations, resulting in silver bar equivalent production of 285.8 koz. Copper cathode equivalent production was in line with market guidance of 45-55 kt and production of gold and silver bar equivalent was at the top end of market guidance of 50-60 koz and 250 koz respectively.

Commissioning works at the clay plant began on 29 September 2016. Only a limited amount of copper in concentrate production was produced in 2016 with the first saleable material expected in the first quarter of 2017.

Copper production (payable metal in concentrate produced) is expected to be between 95 kt and 110 kt in 2017 as output ramps up. By-products from gold production and silver production of between 85-110 koz and around 500 koz respectively (payable metal in concentrate production) are expected in 2017. Molybdenum production at Bozshakol has not yet commenced and the commissioning of the circuit will depend on progress in stabilising copper recoveries and the market price of molybdenum.

## Financial summary

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>1</sup>	280	—
Copper	202	—
Gold	73	—
Silver	5	—
Revenues	93	—
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	45	—
Gold bar equivalent (koz)	60	—
Silver bar equivalent (koz)	286	—
Realised price of copper sales (\$/t) <sup>1,2</sup>	4,519	n/a
Gross EBITDA (excluding special items) <sup>1</sup>	204	(10)
Capitalised EBITDA	(137)	—
EBITDA (excluding special items)	67	(10)
Gross cash costs (US\$/lb) <sup>1</sup>	106	n/a
Net cash costs (US\$/lb) <sup>1</sup>	27	n/a
Expansionary capital expenditure (direct project)	168	527
Expansionary capital expenditure (pre-commercial)	(64)	—

<sup>1</sup> Includes sulphide operations for the full year 2016 including the pre-commercial production period to 27 October 2016.

<sup>2</sup> Realised price of payable metal in copper concentrate, after deduction for TC/RC.

Prior to the achievement of commercial production on 27 October 2016 all revenues and operating costs were capitalised and not recognised in the income statement. To report the performance of Bozshakol for the full year 2016, Gross Revenues and Gross EBITDA have been shown which include the pre-commercial production period. Gross Revenues of \$280 million were recorded during 2016, of which \$187 million was prior to commercial production. The first shipment of copper concentrate was dispatched to China in March, with total shipments of 44.8 kt of copper cathode equivalent in the year, after adjustment for the copper payable. Gross copper revenues in 2016 were \$202 million at an average realised price of \$4,519/t of copper in concentrate, which is determined by reference to the LME price minus a deduction for TC/RCs. By-product revenues from the sale of concentrate were \$73 million and \$5 million from the sale of 59.6 koz and 285.8 koz of gold and silver respectively.



Revenues recognised in the income statement were \$93 million, generated from the sale of 13.7 kt of copper cathode equivalent and 16.7 koz and 98.0 koz of gold and silver respectively, after the achievement of commercial production on 27 October 2016. As the final price for concentrate sales is typically set by reference to the LME price two months after shipment, the increase in copper price in the final two months of the year above the copper forward curve as at 27 October 2016 resulted in price adjustments of \$9 million being recognised in the period following commercial production relating to pre-commercial sales.

Bozshakol generated a Gross EBITDA of \$204 million at a gross cash cost of 106 US\$/lb. The gross cash cost is expressed on a unit of cathode sold basis, after adjustment for the copper payable and TC/RC terms. The cash cost in 2016 has benefited from a number of factors, including limited maintenance expenditure in the first year of operations due to the new equipment, the processing of higher grade, softer material with short haulage routes and a sustained weaker tenge with limited levels of tariff inflation. After deducting the by-product credits from gold and silver sales, the net cash cost of Bozshakol was 27 cents in 2016. The gross cash cost of copper sold in 2017 is expected to be between 125-145 US\$/lb, which places Bozshakol competitively on the global cost curve.

The reported EBITDA of \$67 million relates to the final two months of the year. As noted above, EBITDA for the period after 27 October 2016 benefited from an increase in the forward copper price in November and December 2016.

In 2016 the direct capital expenditure on Bozshakol, excluding capitalised interest on debt facilities, was \$168 million. The majority of the expenditure related to the completion of the clay plant. Expenditure was also incurred on the completion and commissioning of the sulphide operations, including the pebble crusher, high pressure grinding roller, bagging plant and the molybdenum circuit. Retention payments expected to be made in 2016 have been carried forward into 2017. Direct project expenditure includes \$52 million in respect of the stockpiling of clay material to provide access to sulphide material. The direct capital expenditure was partially offset by an inflow of \$64 million from operations during the period prior to commercial production and includes capitalised revenues, costs and working capital.

At the end of 2016, \$2,050 million had been invested in Bozshakol. The total cost of the project is expected to be in the region of \$2,150 million. In 2017, expenditure in the region of \$100 million is expected to be incurred for the release of contractual retention payments, commissioning works at the clay plant, the acquisition of further spares and a subsoil payment in respect of the reserves. In addition, sustaining capital of around \$30 million will be required in 2017, mainly in relation to the maintenance and overhaul of mining equipment.

## AKTOGAY

The Aktogay project is a large scale, open pit development similar to Bozshakol, with a mine life of more than 50 years and average copper grades of 0.37% (oxide) and 0.33% (sulphide). Aktogay commenced production of copper cathode from oxide ore in December 2015, and the production of copper in concentrate from sulphide ore is expected during the first quarter of 2017. The sulphide concentrator will have an annual ore processing capacity of 25 million tonnes when fully ramped up.

Significant progress was made at Aktogay during 2016. The SX/EW plant was successfully ramped up with production levels exceeding expectations. Following a period of steady output, the oxide operations achieved commercial levels of production from 1 July 2016. Construction of the sulphide concentrator was completed and testing and commissioning activities commenced in December 2016. During 2016 the Aktogay project budget was reduced by \$200 million to \$2,100 million.

### Production summary

kt (unless otherwise stated)	2016	2015
Ore output	16,086	3,003
Copper grade (%)	0.41	0.37
Copper in ore mined	65.7	11.0
Copper cathode production	18.1	0.4

Mining operations at Aktogay commenced in the second quarter of 2015 and have ramped up significantly during 2016 to supply additional oxide ore to the heap leach cells and prepare for sulphide extraction. The copper grade of 0.41% was above the life of mine copper grade as operations in the initial years are focused on the higher copper grade zones of the deposit. Areas of sulphide ore have been exposed in readiness to supply the sulphide concentrator ramp up, but only limited volumes of sulphide ore were mined during the year.

The SX/EW facility produced its first copper cathode during December 2015 and has ramped up successfully, achieving production levels above the design capacity of the plant during 2016. The plant achieved output of 6.1 kt during the final quarter, slightly below quarter three output of 6.6 kt, as production reduced due to lower winter temperatures, as expected.

The Aktogay sulphide concentrator commenced commissioning on 6 December 2016 and is currently undergoing testing. The first production of saleable copper concentrate is expected in the first quarter of 2017.

Copper production of between 65 kt and 85 kt is expected from Aktogay during 2017, including around 20 kt of cathode from oxide operations and 45 kt and 65 kt payable metal in concentrate from the sulphide concentrator. Commissioning of the molybdenum circuit at Aktogay has not yet commenced and will depend on the progress in ramping up copper production and the market price of molybdenum.

## Financial summary

\$ million (unless otherwise stated)

	2016	2015
Gross Revenues <sup>1</sup>	68	–
Revenues	52	–
Copper cathode sales (kt) <sup>1</sup>	14	–
Realised price of copper sales (\$/t) <sup>1</sup>	4,889	n/a
Gross EBITDA (excluding special items) <sup>1</sup>	33	(3)
Capitalised EBITDA	(4)	–
EBITDA (excluding special items)	29	(3)
Gross cash costs (USc/lb) <sup>1</sup>	114	n/a
Expansionary capital expenditure (direct project)	144	470
Expansionary capital expenditure (pre commercial)	12	–

<sup>1</sup> Includes oxide operations for the full year 2016 including the pre-commercial production period to 1 July 2016.

The oxide operations achieved commercial levels of production from 1 July 2016. During the first half of 2016 all revenues and operating costs were capitalised.

Following the first production of copper cathode in December 2015, the first sale of material was recorded in January 2016. Gross Revenues of \$68 million were recorded for the year, from sales of 13.9 kt of copper cathode at an average realised price of \$4,889/t. At the end of the year there was a build-up of copper cathode inventory as material was directed to the European market to benefit from favourable sales terms. This material in transit has not been recognised as revenue during 2016, however cash was received in advance for this material.

The gross cash cost from the oxide plant was 114 USc/lb, in line with market guidance of 110-130 USc/lb. This reduced from 156 USc/lb recorded in the first half of the year due to the successful ramp up of production, increased efficiencies and the automation of cathode stripping. The gross cash cost for Aktogay in 2017 is expected to be 125-145 USc/lb, including pre-commercial production from sulphide operations and oxide output.

Gross EBITDA for the full year was \$33 million, the majority of which was generated in the second half of the year during commercial production. EBITDA from commercial production of \$29 million was generated from copper cathode sales of 10.5 kt and benefited from a higher copper price in the second half of the year and the lower unit costs.

In 2016 project capital expenditure, excluding capitalised interest on debt facilities, was \$144 million. This included the completion and commissioning of the oxide SX/EW plant as well as the substantial completion and commissioning of the sulphide concentrator, non-process buildings and the tailings storage facility. The capital expenditure does not reflect the progress on the project as \$300 million of payments to the principal construction contractor have been deferred to 2018. At 31 December 2016, the amount payable under this agreement was \$284 million and is included within other non-current liabilities. In addition to direct project costs, expansionary capital expenditure includes capitalised pre-commercial cash flows and working capital of \$12 million.

The Aktogay project budget was reviewed during the year and reduced by a total of \$200 million to \$2,100 million. The savings were achieved through faster than anticipated progress in construction, from a sustained weaker tenge and the benefit of a local supplier strategy and a partial release of contingency. The total invested in Aktogay from the project budget to date was approximately \$1,465 million. The timing of the remaining capital investment has been updated, with certain payments previously expected in late 2016 now anticipated in early 2017 and \$70 million relating to the expansion of oxide ore heap leach cells deferred to 2018. The resulting capital expenditure profile for the project is expected to be approximately \$265 million in 2017 and \$370 million in 2018. The expenditure in 2017 will include final payments for construction, commissioning works, first fill items, critical spares and the acquisition of rolling stock. In addition, sustaining capital of around \$20 million will be required in 2017, mainly in relation to the maintenance and overhaul of mining equipment.



## EAST REGION AND BOZYMCHAK

### Production summary

#### Copper

kt (unless otherwise stated)	2016	2015
Ore output	4,664	4,435
Copper grade (%)	2.01	2.27
Copper in ore mined	93.9	100.6
Copper in concentrate	81.0	89.4
Orlovsky concentrator	41.7	47.2
Nikolayevsky concentrator	22.5	29.0
Belousovsky concentrator	8.6	10.1
Bozymchak concentrator	8.2	3.1
Copper cathode equivalent production <sup>1</sup>	77.4	80.7

<sup>1</sup> Includes finished metals produced and the finished metal equivalent of concentrate sold in the period.

Ore output from the East Region and Bozymchak totalled 4,664 kt in 2016, which was 229 kt or 5% above the volume extracted in the prior year. This reflected increased volumes from Bozymchak, which following optimisation works completed during the fourth quarter of 2015, operated at design capacity throughout 2016. This more than offset lower ore volumes from the East Region's Orlovsky and Yubileyno-Snegirikhinsky mines. The Orlovsky mine implemented a six-day working week from the start of the second half of the year to allow maintenance to be carried out on a ventilation shaft, which will continue for approximately two years. Ore output at Yubileyno-Snegirikhinsky reduced as the mine reached the end of its operational life in December 2016 with all mineral reserves fully exploited after 15 years. Ore stockpiled at the site will be processed in early 2017. 188 employees have either been redeployed within the Group or accepted redundancy, whilst 40 employees will remain on site to supervise the process of decommissioning and rehabilitation.

As expected, the copper grade was below the prior year at 2.01%. Average grades were impacted by higher volumes and lower grades from the Bozymchak mine, as well as lower grades across most of the East Region mines, including Artemyevsky where mining occurred in a transitional area between two ore bodies. The 11% decrease in copper grade more than offset the increase in ore output and resulted in a 7% reduction in copper in ore mined.

Copper in concentrate output of 81.0 kt was 8.4 kt or 9% below the prior year as lower production from all East Region concentrators was partly offset by higher output from the optimised Bozymchak mine. East Region copper in concentrate production reduced by 16%, reflecting the expected lower output from Orlovsky as well as road repairs which restricted ore deliveries from the Yubileyno-Snegirikhinsky mine to the Nikolayevsky concentrator. The average recovery rate was in line with the prior year, despite the lower grade material processed.

The copper concentrate produced by the East Region and Bozymchak is processed into cathode on a tolling basis at the Balkhash smelter. Copper cathode equivalent production decreased by 3.3 kt to 77.4 kt, mainly due to the lower copper in concentrate output. Maintenance work at the Balkhash smelter in the final two months of the year resulted in some work in progress being carried forward into 2017. Full year copper cathode equivalent production of 77.4 kt includes 0.9 kt recognised from the sale of copper concentrate produced at Bozymchak in 2015 to a third-party processor and 1.7 kt of material sold as copper concentrate from the East Region. Limited volumes of East Region concentrate may continue to be sold to China in 2017.

Copper production for the East Region and Bozymchak is anticipated to reduce to around 65 kt in 2017 as output declines following the closure of Yubileyno-Snegirikhinsky and the full-year impact of the six-day rota and lower grades at Orlovsky.

#### By products

koz (unless otherwise stated)	2016	2015
Zinc grade (%)	2.98	3.23
Zinc in ore mined (kt)	111.3	128.9
Zinc in concentrate (kt)	75.4	94.3
Gold grade (g/t)	0.74	0.75
Gold in ore mined	111.2	106.6
Gold in concentrate	67.6	42.1
Gold bar equivalent <sup>1</sup>	60.1	34.6
Silver grade (g/t)	37.8	43.3
Silver in ore mined	5,660	6,168
Silver in concentrate	3,224	3,229
Silver bar equivalent <sup>1</sup>	2,817	3,135

<sup>1</sup> Includes finished metals produced and the finished metal equivalent of concentrate sold in the period.

Zinc in concentrate production of 75.4 kt slightly exceeded the external guidance for 2016 but compared to the prior year fell by 20%. This reflected a 17.6 kt or 14% decrease in zinc in ore mined due to a reduction in by-product grades and lower ore output at Orlovsky, the largest zinc producing mine and where operations have been reduced to a six-day week. The reduction in grade is in line with expectations and primarily a result of lower zinc grades at Artemyevsky where mining is moving through a transitional zone between two ore bodies. Concentrate production was also restricted by the temporary disruption to ore transport from the Yubileyno-Snegirikhinsky mine.

Higher production at Bozymchak resulted in a 74% increase in gold bar equivalent production, more than offsetting the East Region's lower ore volumes and grades. Bozymchak operated at 100% of design capacity throughout the year and contributed gold bar equivalent of 38.3 koz, a 206% increase from 2015. Lower output from East Region was primarily the result of lower volumes and grades at Orlovsky.

Silver in concentrate production was in line with the prior year as output from Bozymchak offset a lower contribution from the East Region. East Region silver in concentrate production was affected by the lower volumes and grades at Orlovsky, as well as lower grades at Irtyshsky. Silver grades were expected to fall in the East Region mines but were stronger than expected at Artemyevsky and Irtyshsky which also assisted concentrator recovery rates. Silver bar production of 2,817 koz was 10% below the prior year, but exceeded market guidance of 2,250-2,500 koz.

East Region and Bozymchak are expected to produce 70 kt to 75 kt of zinc in concentrate, 50 koz to 60 koz of gold (payable metal in concentrate) and 2,250 koz to 2,500 koz of silver (payable metal in concentrate) in 2017.

## Financial Summary

\$ million (unless otherwise stated)	2016	2015
Gross Revenues <sup>1</sup>	621	677
Copper	399	465
Zinc	95	102
Silver	46	46
Gold	75	41
Other	6	23
Revenues	621	665
Sales volumes <sup>1</sup>		
Copper cathode equivalent (kt)	82	84
Zinc in concentrate (kt)	75	96
Silver bar equivalent (koz)	2,740	3,048
Gold bar equivalent (koz)	60	35
Realised price of copper sales (\$/t) <sup>1</sup>	4,859	5,524
Gross EBITDA (excluding special items) <sup>1</sup>	279	246
Capitalised EBITDA	—	(6)
EBITDA (excluding special items)	279	240
Gross cash costs (US\$/lb) <sup>1</sup>	191	230
Net cash costs (US\$/lb) <sup>1</sup>	68	109
Capital expenditure	62	74
Sustaining	50	67
Expansionary	12	7

<sup>1</sup> Includes Bozymchak operations for the full year 2015 including the pre-commercial production period to 1 July 2015.

## Gross Revenues

Gross Revenues in the prior year include sales volumes from Bozymchak during the period of pre-commercial production prior to 1 July 2015 which comprise \$6 million from the sale of copper cathode and \$6 million from the sale of gold bar. Gross Revenues generated by the East Region and Bozymchak decreased by 8% to \$621 million in 2016, reflecting lower pricing for copper and a decrease in zinc sales volumes, which was partially offset by increased gold volumes from Bozymchak.

Copper revenues fell by 14% to \$399 million as a result of a lower realised copper price. The average LME copper price decreased by 12% to \$4,860/t versus \$5,495/t during 2015. Copper cathode is sold to customers in China or Europe based on the LME price plus a premium to reflect the terms of trade. Copper cathode equivalent sales volumes in 2016 include 2.6 kt of payable metal from the sale of copper in concentrate, which is sold based on the LME price minus a deduction for TC/RCs. Copper sales volumes in 2015 includes 5 kt of cathode which was purchased externally to compensate for variances in monthly cathode output, mainly because of maintenance at the Balkhash smelter. The sale of the externally purchased cathode contributed revenue of \$28 million at a small margin. Excluding externally purchased material, the prior year copper cathode equivalent volumes were 79 kt.

Gross Revenues from by-products increased by \$10 million or 5% due largely to the increase in gold production from the optimised Bozymchak operation. Gold sales volumes more than doubled and benefited from an 8% increase in the average market LBMA price for gold. Zinc concentrate sales were 22% below the prior year due to lower production and grades but this was partially offset by a 9% increase in the market price for zinc versus the prior year. Silver revenues were consistent with the prior year, as lower volumes were offset by an increase in price. Other revenues in the prior year included the sale of sulphuric acid which is now supplied to Aktogay for heap leach operations.

## Gross EBITDA (excluding special items)

Gross EBITDA improved by \$33 million compared to the prior year as lower revenues were more than offset by a reduction in cash operating costs. Cash operating costs of \$342 million fell by 15% compared to 2015 (excluding the \$28 million cost of acquiring third-party cathode) despite a \$19 million increase in costs at Bozymchak resulting from a full year of capacity output.

The reduction in operating costs was largely the result of foreign exchange. A significant portion of the East Region's operating costs are denominated in tenge. Following a free float in August 2015, the tenge traded at an average of 342 KZT/\$ during 2016 compared to an average of 222 KZT/\$ in 2015. Management has taken a robust position in the renegotiation of contracts following the devaluation and where possible, has delayed tariff increases. The full impact of tariff increases resulting from the devaluation is expected to feed into costs from 2017. In addition, there has been a continued focus on cost control and optimisation initiatives which, combined with a fall in the cost of key input prices such as smelting charges, fuel and transportation charges, has reduced costs.

The gross cash cost of 191 US\$/lb was 17% below the 230 US\$/lb recorded in the prior year due to the lower cash operating costs noted above. This was at the lower end of guidance of 190-210 US\$/lb. The fall in net cash costs from 109 US\$/lb to 68 US\$/lb is due to the reduction in gross cash cost, the increase in gold volumes from Bozymchak and higher market prices for all by-products, partially offset by lower zinc volumes.

The gross cash cost of copper sold for East Region and Bozymchak is expected to increase by around 20% to 230-250 US\$/lb in 2017. This is largely attributable to the expected reduction in copper volumes due to the closure of the Yubileyno-Snegirikhinsky mine at the end of the year and lower volumes and grades from the Orlovsky mine which will operate a six-day week throughout 2017. This is expected to result in a reduction in copper production of around 20% from 2016 levels which will put upward pressure on unit costs. In addition, costs will reflect the full impact of inflation following the devaluation while in Kyrgyzstan new legislation will increase salaries. The 2017 cash cost guidance is set assuming the tenge continues to trade in the mid-300s.

#### Capital expenditure Sustaining

Sustaining capital expenditure totalled \$50 million in 2016, which was \$17 million below the prior year and below the guidance of \$70-80 million. Management has deferred capital expenditure where possible with optimisation and less critical maintenance moved into 2017. Expenditure in 2016 includes mine development works, the purchase of mine equipment, expansion of tailings facilities and ventilation shaft maintenance at Orlovsky.

In 2017 sustaining capital requirements for the East Region and Bozymchak are expected to be around \$70 million including approximately \$15 million on optimisation projects deferred from 2016. Optimisation projects include the construction of a railway line between Artemyevsky and the Nikolayevsky concentrator.

#### Expansionary

Expansionary capital in 2016 of \$12 million related to the initial mine development works for the extension of the existing Artemyevsky mine and was incurred to develop a ventilation tunnel. The majority of the expenditure for the project will occur from 2019, with expenditure estimated at around \$30 million in 2017 and 2018 for long-lead items such as shaft development.

#### Sensitivity analysis on prices

The Group's revenue is significantly influenced by commodity prices quoted on the LME and LBMA exchanges for copper, zinc, gold and silver. Changes in these prices have a direct effect on the revenues of the Group, which consequently impact earnings and the net cash cost of copper due to changes in by-product credits.

The approximate effect on the profit before finance items and taxation resulting from a 10% movement in the average realised commodity prices on the Group's results is shown in the following table, assuming all other variables remain constant:

	Average realised price		Impact of 10% price movement on profit <sup>1</sup>
	2016	2015	\$m
Copper cathode equivalent (\$/t)	<b>4,951</b>	5,515	49
Zinc in concentrate (\$/t)	<b>1,271</b>	1,061	9
Silver bar equivalent (\$/oz)	<b>17.1</b>	15.5	5
Gold bar equivalent (\$/oz)	<b>1,198</b>	1,185	9

<sup>1</sup> Profit before taxation and finance items in 2016.

#### OTHER PROJECTS

The Group expects to make available up to \$20 million during 2017 for other projects, including further studies at Koksay and to study the feasibility of construction of a copper smelter in Kazakhstan. The smelter would process copper concentrate from Bozshakol and Aktogay. Any decision to proceed with construction will be subject to additional technical and economic evaluation and the availability of suitable financing. The Group acquired Koksay, a third major growth project, in 2014 which is located in south eastern Kazakhstan. The project is estimated to have a life of over 20 years with average annual production of around 80 kt of copper cathode equivalent along with gold, silver and molybdenum by-products. In 2016 expenditure of \$1 million was incurred on the project to continue scoping study works.



FROM  
PROMISE TO  
PERFORMANCE

# BOZYMCHAK

Construction  
complete

2014

2015

2016

Produced 7 kt  
copper and 38  
koz gold

Concentrator  
ramp up

Bozymchak, our copper and gold open pit mine in Kyrgyzstan, commenced commissioning in 2014 with the first copper and gold production in the second half of the year. In 2016, Bozymchak mined 935 kt of ore at a copper grade of 0.86%, producing 7 kt of copper cathode equivalent and 38 koz of gold bar.







# 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 2016. In preparing the consolidated financial statements, the Group did not apply or adopt any standards, interpretations or amendments that were issued but not yet effective.

The Bozshakol sulphide and Aktogay oxide plants commenced sales during 2016 and were in pre-commercial production until they were declared commercial on 27 October 2016 and 1 July 2016 respectively. During the pre-commercial production phase, revenues and operating costs were capitalised within

property, plant and equipment as part of the cost of construction and are not included in the income statement. The Financial Review and the consolidated financial statements (note 4(a)(i)) include the non-IFRS measures Gross Revenues and Gross EBITDA (excluding special items), which incorporate the results of the Bozshakol sulphide and Aktogay oxide plants before capitalisation to provide a measure of their performance for the full year.

For the year ended 31 December 2015, Gross Revenues and Gross EBITDA (excluding special items) include Bozymchak's pre-commercial production activities. Bozymchak achieved commercial production on 1 July 2015 and from that date its revenues and related costs were recognised in the income statement.

## Income statement

An analysis of the consolidated income statement is shown below:

\$ million (unless otherwise stated)	2016	2015
Gross Revenues	969	677
Gross EBITDA (excluding special items)	492	208
Revenues	766	665
Cash operating costs	(415)	(463)
<b>EBITDA (excluding special items)</b>	<b>351</b>	<b>202</b>
Special items:		
Less: write-offs and impairment charges	(3)	(12)
Less: loss on disposal of assets	–	(2)
Add: NFC deferral benefit	–	16
Less: MET and royalties	(70)	(62)
Less: depreciation, depletion and amortisation	(60)	(52)
<b>Operating profit</b>	<b>218</b>	<b>90</b>
Net finance income/(costs)	2	(78)
<b>Profit before taxation</b>	<b>220</b>	<b>12</b>
Income tax expense	(43)	(24)
<b>Profit/(loss) for the year</b>	<b>177</b>	<b>(12)</b>
Non-controlling interests	–	–
<b>Profit/(loss) attributable to equity holders of the Company</b>	<b>177</b>	<b>(12)</b>
<b>Earnings per share attributable to equity shareholders of the Company</b>		
EPS – basic and diluted (\$)	0.40	(0.03)
EPS based on Underlying Profit/(Loss) (\$)	0.40	(0.02)

## Gross Revenues and revenues

Gross Revenues for 2016 were \$969 million, an increase of 43% from the prior year due to the contributions from Bozshakol and Aktogay of \$280 million and \$68 million respectively. Gross Revenues at the East Region and Bozymchak reduced by \$56 million to \$621 million as the increase in sales volumes from the optimised Bozymchak operations was more than offset by lower copper prices and a reduction in zinc volumes.

Revenues recognised in the income statement increased by 15% to \$766 million, reflecting the commercial revenues generated by Bozshakol and Aktogay of \$93 million and \$52 million respectively and a full year of design capacity output from Bozymchak. The growth in revenues was volume driven, offsetting the impact of lower copper prices. Revenues recognised in the income statement exclude sales from the pre-commercial production period during which revenues of \$187 million and \$16 million from Bozshakol and Aktogay were capitalised in 2016. In 2015 pre-commercial revenues of \$12 million arose from Bozymchak.





For more information, see pages

12 Chairman's statement

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Further information on Gross Revenues and revenues by operating segment is found in the Operating review.

### Operating profit

Operating profit for 2016 was \$218 million compared to \$90 million in 2015, reflecting improved profitability across all the segments. Volume growth at Bozshakol and Bozymchak led to increases of \$59 million and \$39 million respectively. The East Region's operating profit rose by \$24 million due to the favourable impact on costs of the 2015 tenge devaluation and lower impairments in 2016.

### EBITDA (excluding special items)

EBITDA (excluding special items) is a key non-IFRS measure that the Directors use internally to assess the performance of the Group's segments and is viewed as relevant to capital intensive industries with long life assets. This performance measure removes depreciation, depletion, amortisation, MET, royalties and those items which are non-recurring or variable in nature and which do not impact the underlying trading performance. The Directors believe that the exclusion of MET and royalties provides an informed measure of the operational profitability given the nature of the tax as further explained in the 'Taxation' section. The Directors also believe that this measure closely reflects the operating cash generative capacity and therefore the trading performance of the business as a whole. Special items are excluded to enhance the comparability of EBITDA (excluding special items) from period to period. A reconciliation of this measure to operating profit can be found in note 4(a)(i) of the consolidated financial statements.

Gross EBITDA (excluding special items) includes the EBITDA (excluding special items) earned by the Group's development assets in the period prior to commercial production, which is capitalised to property, plant and equipment.

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

\$ million	2016	2015
East Region operations	227	235
Bozymchak	52	11
Bozshakol	204	(10)
Aktogay	33	(3)
Corporate services	(24)	(25)
Gross EBITDA	492	208
Less: capitalised pre-commercial production EBITDA	(141)	(6)
Bozymchak	—	(6)
Bozshakol	(137)	—
Aktogay	(4)	—
<b>EBITDA (excluding special items)</b>	<b>351</b>	<b>202</b>

Gross EBITDA (excluding special items) for the Group rose by 137% from \$208 million to \$492 million due to the contribution from the Bozshakol sulphide and Aktogay oxide plants which commenced sales activities during the first quarter of 2016 and from increased sales volumes from Bozymchak. The Gross EBITDA (excluding special items) margin for the Group improved from 31% in 2015 to 51% in 2016 due to Bozshakol's low cash operating costs and the tenge devaluation benefiting the East Region operations.

At Bozshakol, Gross EBITDA (excluding special items) improved from a loss of \$10 million in 2015 to a contribution of \$204 million due to the commencement of sales in the first quarter of 2016. The Bozshakol sulphide plant reached commercial levels of production on 27 October 2016, from when revenues and operating costs were recognised in the income statement.

Aktogay's Gross EBITDA (excluding special items) was \$33 million following the commencement of sales of cathode from the oxide plant in early 2016, partly offset by higher levels of operational readiness activities for the sulphide plant. The Aktogay oxide plant achieved commercial levels of production from 1 July 2016 from when revenues and operating costs were recognised in the income statement.

The East Region's Gross EBITDA (excluding special items) of \$227 million was \$8 million lower than in 2015 as lower cash operating costs partially offset a reduction in revenue. Cash operating costs in 2016 of \$306 million were \$80 million below the prior year, excluding a \$28 million cost of cathodes purchased to fulfil customer obligations, reflecting the significant impact of the August 2015 tenge devaluation on the cost base and continued cost control measures.

Bozymchak's Gross EBITDA (excluding special items) of \$52 million was higher than the \$11 million reported in 2015 due to increased production and sales volumes. During the pre-commercial production phase in the first half of 2015, EBITDA of \$6 million was capitalised to property, plant and equipment resulting in an EBITDA of \$5 million in 2015.

Corporate costs of \$24 million were broadly unchanged from 2015.

The increase in EBITDA (excluding special items) from \$202 million to \$351 million in 2016 is mainly attributed to the \$77 million increased contribution from Bozshakol and \$32 million increase from Aktogay oxide following their achievement of commercial production and the increased contribution from the Bozymchak operation of \$47 million.

Please refer to the Operating review for a detailed analysis of the Group's EBITDA (excluding special items) by operating segment.

### Special items

Special items are non-recurring or variable in nature and do not impact the underlying trading of the Group.

**Special items within operating profit:****2016****Impairment charges**

During 2016, an impairment of \$3 million at the East Region operations has been recognised against property, plant and equipment which is no longer expected to be utilised.

**2015****Impairment charges**

During 2015, the following impairment charges were recognised:

- Property, plant and equipment – a charge of \$8 million primarily related to the impairment of administrative land and buildings in Kazakhstan, retained in the Restructuring, which were not in use.
- Mining assets – a charge of \$4 million against mine development works which were not expected to be utilised.

**Loss on disposal of assets**

During 2015, a loss on the disposal of mining assets of \$2 million was recognised relating to assets that the Group no longer intends to develop.

**NFC deferral benefit**

In November 2015, the Group signed an agreement with NFC under which \$300 million of Aktogay construction costs, which were scheduled to be paid in 2016 and 2017, will be settled in the first half of 2018 with no change to the overall amount payable to NFC. The agreement to defer payments gave rise to a non-cash gain of \$16 million representing the estimated benefit to the Group.

**Impact of fire at Bozshakol**

A fire occurred in August 2015 in the grinding area of the Bozshakol concentrator which caused \$7 million of damage to equipment and was covered by construction insurance. The damaged equipment was written off to other operating expenses with the insurance payment recognised in other operating income with a net effect of nil.

**Other items excluded from EBITDA (excluding special items)****MET and royalties**

MET and royalties charge in the income statement rose from \$62 million in 2015 to \$70 million in 2016, reflecting the increase in metal in ore mined during commercial production from the Bozshakol and Aktogay operations and royalties incurred on higher Bozymchak sales volumes.

At Bozshakol, the total MET incurred for the year was \$65 million (2015: \$17 million), of which \$25 million (2015: \$17 million) was incurred prior to commercial production and capitalised to property, plant and equipment while \$33 million (2015: \$11 million) was in respect of stockpiled clay ore and included in the cost of non-current inventory on the balance sheet. At Aktogay, the total MET charge for the year was \$17 million, \$9 million of which related to pre-commercial production. Neither Bozshakol or Aktogay charged any MET to the income statement in 2015.

The MET charge for the East Region of \$50 million for 2016 was below the \$61 million charge in the prior year reflecting lower metal in ore extracted and a fall in LME copper prices. Bozymchak incurred \$5 million of royalties and social development tax compared to \$1 million incurred in 2015 after the achievement of commercial production.

**Depreciation, depletion and amortisation**

Depreciation, depletion and amortisation for 2016 of \$60 million is \$8 million higher than the \$52 million charge in 2015 as depreciation of the Bozshakol and Aktogay assets began on achievement of commercial production, increasing the charge by \$17 million. At Bozymchak, depreciation increased by \$4 million reflecting a full year of production. The depreciation charge in the East Region operations was \$13 million lower compared to 2015 due to the tenge devaluation in the second half of the prior year.

**Net finance income/(costs)**

Net finance income/(costs) includes:

\$ million	2016	2015
Interest income	9	9
Interest on borrowings	(197)	(155)
Unwinding of discount on NFC deferral	(8)	–
Total interest cost	(205)	(155)
Interest capitalised	163	132
Interest expense	(42)	(23)
Interest on employee obligations and unwinding of discounts	(3)	(4)
Net foreign exchange gains/(loss)	38	(60)
<b>Net finance income/(costs)</b>	<b>2</b>	<b>(78)</b>

Overall, net finance income was \$2 million compared to a cost of \$78 million in 2015.

The total interest cost on borrowings amounted to \$197 million and was \$42 million higher than the \$155 million incurred in the prior year. The increase is attributed to higher LIBOR rates in 2016 affecting the Group's interest cost. The unwinding of the discount on the NFC deferral of \$8 million, being the implied interest cost on the \$300 million deferral agreed in 2015, is capitalised to the cost of the Aktogay sulphide plant until it reaches commercial production.

The interest expense of \$42 million (2015: \$23 million) is after the capitalisation of interest relating to the construction of new mines and increased due to the expensing of borrowing costs associated with the Bozshakol sulphide and Aktogay oxide plants after they achieved commercial production in 2016.

The \$38 million net foreign exchange gain in 2016 was principally driven by a 9% appreciation of the Kyrgyz som and from the 18% depreciation in the UK pound sterling against the US dollar. The appreciation of the som resulted in net exchange gains of \$20 million on Bozymchak's US dollar denominated intercompany debt, while the depreciation of the UK pound sterling from

June 2016 against the US dollar gave rise to a \$16 million gain on intercompany British pound liabilities. These gains were largely offset by translation losses recognised within equity.

The net exchange loss of \$60 million in 2015 was largely attributed to the depreciation of the Kyrgyz som giving rise to net exchange losses on Bozymchak's US dollar denominated intercompany net debt of \$52 million and net exchange losses of \$7 million across the Kazakhstan operations following the August 2015 tenge devaluation.

## 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 on the Group's tax charge.

\$ million (unless otherwise stated)	2016	2015
<b>Profit before taxation</b>	<b>220</b>	12
Add: MET and royalties	<b>70</b>	62
Add: special items within operating profit	<b>3</b>	(2)
<b>Adjusted profit before taxation</b>	<b>293</b>	72
Income tax expense	<b>43</b>	24
Add: MET and royalties	<b>70</b>	62
Less: recognition of deferred tax liability on special items	<b>—</b>	(4)
<b>Adjusted tax expense</b>	<b>113</b>	82
<b>Effective tax rate (%)</b>	<b>20</b>	200
<b>All-in effective tax rate<sup>1</sup> (%)</b>	<b>39</b>	114

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

## Effective tax rate

The effective tax rate was 20%, considerably below the prior year when the Group recorded a much lower profit before tax. The higher level of profitability in 2016 reduced the impact of non-deductible items within the Group's Kazakhstan operations. The effective tax rate was also supported by the utilisation of historic tax losses at the Bozymchak operations. The effective tax rate in 2015 of 200% arose as a tax charge of \$24 million was realised on a profit before taxation of \$12 million and reflects unrecognised tax losses from the Bozymchak operations and the Group's UK financing entity and higher non-deductible expenses incurred principally at the East Region.

## All-in effective tax rate

The all-in effective tax rate decreased to 39% from 114% in 2015 as the adjusted profit before taxation increased by \$221 million following the higher profitability across the operations and the utilisation of historic tax losses at Bozymchak. MET and royalties increased by \$8 million following commercial production at Bozshakol and Aktogay oxide and increased sales volumes at Bozymchak, partially offset by lower metal in ore mined from the East Region operations and lower copper prices. The higher all-in

effective rate in 2015 was negatively impacted by unrecognised tax losses at Bozymchak and by MET representing a greater proportion of the adjusted profit before taxation. As MET is determined independently of the profitability of operations, in periods of lower profitability the all-in effective tax rate increases, as the impact of MET and royalties is elevated due to their revenue based nature. Conversely, during periods of higher profitability, the MET and royalties' impact on the all-in effective tax rate decreases.

## Taxation related special items:

### 2015

The taxation special items relate to the tax effects on the \$16 million NFC deferral benefit and certain other impairment charges.

## 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% and 10% in Kyrgyzstan on assessable profits whilst MET is revenue-based and dependent on commodity prices.

## Underlying Profit/(Loss)

Underlying Profit/(Loss) is a non-IFRS measure and is the profit/(loss) for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and non-controlling interest effects. The reconciliation of Underlying Profit/(Loss) from profit/(loss) attributable to equity holders of the Company is set out below:

\$ million (unless otherwise stated)	2016	2015
Net profit/(loss) attributable to equity holders of the Company	<b>177</b>	(12)
Special items:		
Write-offs and impairment charges	<b>3</b>	12
Loss on disposal of assets	<b>—</b>	2
NFC deferral benefit	<b>—</b>	(16)
Taxation effect of special items:		
Recognition of deferred tax liability on special items	<b>—</b>	4
<b>Underlying Profit/(Loss)</b>	<b>180</b>	(10)
Weighted average number of shares in issue (million)	<b>447</b>	446
Ordinary EPS – basic and diluted (\$)	<b>0.40</b>	(0.03)
EPS based on Underlying Profit/(Loss) – basic and diluted (\$)	<b>0.40</b>	(0.02)

The Group's net profit attributable to equity holders of the Company was \$177 million in 2016 compared to a loss of \$12 million for the year ended 31 December 2015.

The Underlying Profit for the year was \$180 million compared to a loss of \$10 million in the prior year, primarily due to increased operating profit across all the Group's operations and from the impact of exchange gains compared to exchange losses in the prior year.



## Earnings per share

Basic earnings per share of \$0.40 increased from the \$0.03 loss per share in 2015, whilst earnings per share based on Underlying Profit rose to \$0.40 from a loss of \$0.02, reflecting the Group's improved profitability.

## 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 was prudently maintained.

Taking into consideration the Group's increase in net debt during the construction and ramp up phase of two of the major growth projects, the Directors did not declare an interim dividend and will not recommend a final dividend for 2016. 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.

## Cash flows

The summary of cash flows shown below, is prepared on a basis consistent with internal management reporting with the key non-IFRS measure of Free Cash Flow which is defined as the net cash flow from operating activities before capital expenditure and non-current VAT associated with major projects less sustaining capital expenditure.

\$ million	2016	2015
<b>EBITDA (excluding special items)<sup>1</sup></b>	<b>351</b>	202
Change in inventories <sup>2</sup>	(19)	(23)
Change in prepayments and other current assets <sup>2</sup>	(14)	(29)
Change in trade and other receivables <sup>2</sup>	(38)	74
Change in trade and other payables and provisions <sup>2</sup>	(2)	(59)
Interest paid	(179)	(147)
MET and royalties paid <sup>2</sup>	(73)	(54)
Income tax paid	(39)	(40)
Foreign exchange and other movements	4	(1)
<b>Net cash flows from operating activities before capital expenditure and non-current VAT associated with major projects<sup>4</sup></b>	<b>(9)</b>	(77)
Sustaining capital expenditure	(51)	(68)
<b>Free Cash Flow</b>	<b>(60)</b>	(145)
Expansionary and new project capital expenditure <sup>3</sup>	(273)	(1,012)
Acquisition of mining licences	—	(46)
Non-current VAT associated with major projects	(89)	(105)
Interest received	9	7
Proceeds from disposal of property, plant and equipment	1	7
Other movements	(3)	(2)
<b>Cash flow movement in net debt</b>	<b>(415)</b>	(1,296)

<sup>1</sup> EBITDA (excluding special items) is defined as profit before interest, taxation, depreciation, depletion, amortisation, MET and royalties. Please refer to note 4(a)(i) of the consolidated financial statements.

<sup>2</sup> Excludes working capital and MET movements arising from pre-commercial production activities at the Bozshakol and Aktogay operations in 2016 and Bozymchak in 2015.

<sup>3</sup> Capital expenditure includes the capitalisation of \$64 million cash inflow and \$12 million cash outflow relating to pre-commercial production activities at Bozshakol and Aktogay respectively (2015: \$2 million from Bozymchak). At Bozshakol \$52 million was spent on the stockpiled clay ore and included within new project capital expenditure.

<sup>4</sup> The difference between 'net cash flows from operating activities before capital expenditure and non-current VAT associated with major projects' and 'net cash used in operating activities' as reflected on the Group cash flow statement is the VAT paid on the construction of the major projects.

## Summary of the year

Net cash flows from operating activities before other expenditure associated with major projects improved following higher profitability and lower sustaining capital expenditure, partly offset by higher interest payments on borrowings, increased MET payments from Bozshakol and Aktogay following commercial production and higher working capital requirements, notably accounts receivable in December 2016.

### Working capital

The working capital movements in the table above exclude the period of pre-commercial production at Bozshakol and Aktogay which are included within expansionary and new project capital expenditure.

- inventory levels have risen by \$19 million following an increase in raw materials requirements at the Bozshakol and Aktogay operations and a small increase in East Region and Bozymchak work in progress at the Balkhash smelter. The \$47 million increase in inventory as reflected in the IFRS based cash flow statement (see note 29) includes MET and depreciation, both production costs which are excluded from the cash flow above as MET is reflected separately and EBITDA (excluding special items) is stated before depreciation and amortisation;
- prepayments and other current assets increased by \$14 million primarily due to build-up of VAT receivable at the East Region and Bozymchak operations and advances paid for goods and services at the Aktogay oxide operations. The East Region operations received \$30 million in VAT refunds during 2016;
- trade and other receivables increased by \$38 million mainly due to higher volumes and prices of Bozshakol concentrate sales over the last two months of the year; and
- creditors and provisions decreased by \$2 million as creditor reductions from the East Region, Bozymchak and Corporate segments were partly offset by increased trade payables at the Bozshakol and Aktogay operations. The \$9 million accounts payable and provision inflow reflected in the IFRS based cash flow statement (see note 29) includes the accruals relating to MET and royalties. The cash flow shown above shows MET and royalty payments separately.

Working capital movements at Bozshakol and Aktogay incurred during pre-commercial production (financed in part by the project budgets) are reflected within expansionary capital expenditure in the cash flow above and are not included in the Free Cash Flow. The pre-commercial working capital movements include a \$39 million outflow for consumables and raw materials, a \$40 million increase in trade and other receivables and a \$3 million increase in prepayments, partly offset by a \$45 million increase in trade creditors, including MET payable during this period.

In 2015, inventory levels increased by \$23 million following a build-up of work in progress at the Balkhash smelter. Trade and other receivables decreased by \$74 million mainly due to the winding down of trading relationships with the Disposal Assets. Prepayments increased by \$29 million from a build-up of VAT in excess of refunds over the course of the year. Trade and other payables and provisions decreased by \$59 million in 2015, reflecting the settlement of amounts due to the Disposal Assets in respect of sales arrangements which ended in late 2014.

### Interest cash flows

Interest paid during the year was \$179 million, compared with the \$147 million paid in the prior year. The increased payment is consistent with the higher borrowings cost for the year at \$197 million compared to \$155 million in the prior year. Interest

payments are made semi-annually under the CDB Bozshakol/Bozymchak and CDB Aktogay US dollar facilities, quarterly under the CDB Aktogay RMB facility and monthly under the pre-export finance facility.

### Income taxes and Mineral Extraction Tax

Income tax payments of \$39 million were slightly below the income tax charge which includes deferred tax. At 31 December 2016, the Group's net income tax payable was \$4 million, compared to \$11 million in 2015.

MET and royalty payments increased to \$73 million reflecting the payments made by Bozshakol and Aktogay following the achievement of commercial production and higher royalty payments at Bozymchak. The total MET paid on ore mined at Bozshakol and Aktogay in 2016 was \$46 million and \$19 million, with \$40 million and \$5 million respectively included within expansionary capital expenditure. Subsequent to achieving commercial production at the Bozshakol sulphide and the Aktogay oxide plant, MET of \$6 million and \$14 million was paid respectively. At 31 December 2016, MET and royalties payable was \$49 million compared to \$25 million at 31 December 2015, attributed largely to increased mining activity compared to the prior year at Bozshakol and Aktogay and higher copper prices at the end of year increasing the MET and royalties payable.

### Free Cash Flow

The Group's Free Cash Flow before interest payments on borrowings was \$119 million compared to \$2 million in 2015 due to the increase in operational cash flows from Bozshakol, Aktogay and Bozymchak as well as reduced sustaining capital expenditure at the East Region operations. After interest payments, Free Cash Flow was an outflow of \$60 million compared to an outflow of \$145 million in the prior year.

### Capital expenditure

Sustaining capital expenditure relates primarily to East Region and Bozymchak and reduced by \$17 million to \$51 million as management continue to defer expenditures where possible. Expansionary and new project expenditure of \$273 million was below the \$1,012 million invested in 2015. The decrease in expansionary expenditure is due to Bozshakol and Aktogay nearing completion and due to the agreement to defer \$300 million of the Aktogay principal contractor costs to 2018. Total Bozshakol and Aktogay capital expenditure for 2016 was \$104 million and \$156 million respectively, including \$52 million of operating cash inflows capitalised ahead of pre-commercial production and \$52 million outflow relating to the investment in stockpiled clay ore. Total Group capital expenditure incurred in 2016 was \$324 million, \$756 million below the \$1,080 million invested in the prior year. Please refer to the Operating Review for an analysis of the Group's capital expenditure by operating segment.

### Non-current VAT

The non-current VAT cash flow includes a substantial portion of VAT relating to the \$300 million NFC deferral and is affected by the timing of VAT payments on expansionary capital.

## Other investing and financing cash flows

In 2016, other investing cash flows relate to interest received on cash and cash equivalents and deposits of \$9 million.

In 2015, other investing cash flows principally related to the \$35 million final instalment for the Koksay licence along with transaction taxes, interest received of \$7 million and the sale of various items of property, plant and equipment within the Group for proceeds of \$7 million.

## Balance sheet

The Group's capital employed position at 31 December 2016 is shown below:

\$ million	2016	2015
Equity attributable to owners of the Company	533	319
Non-controlling interests	3	3
Borrowings	3,777	3,504
Capital employed	4,313	3,826

Summary of movements The Group's attributable profit for the year of \$177 million led to the increase in the equity attributable to owners of the Company and a marginal appreciation of the tenge increased the US dollar value of the Group's foreign currency operations by \$35 million.

In 2015, there was a significant reduction in net equity due to the 86% fall in value of the tenge from 31 December 2014 to 31 December 2015. The Group's mining assets are largely held within Kazakhstan based entities which have tenge functional currencies. At period ends, these non-monetary assets are consolidated and reported in US dollars at the closing exchange rate with the change in value arising from movements in the tenge exchange rate reflected in equity and not through the income statement.

Whilst the consolidated net asset value of the Group's Kazakhstan based entities reduced for reporting purposes in 2015, the weaker tenge had a positive effect on their underlying economic value as it reduced their local operating costs in 2016, with revenues largely US dollar based. The Group's external liabilities, principally its bank debt, are largely US dollar denominated and therefore its value is unaffected by movements in the KZT/USD exchange rate.

## Net debt

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

\$ million	2016	2015
Cash and cash equivalents	1,108	851
Current investments	—	400
Borrowings	(3,777)	(3,504)
Net debt	(2,669)	(2,253)

Cash and cash equivalents and current investments at 31 December 2016 totalled \$1,108 million and was lower than the \$1,251 million at 31 December 2015 as the \$594 million in facility

draw downs during 2016 were more than offset by the repayment of debt of \$321 million, expansionary capital expenditure and a negative Free Cash Flow after interest payments. In 2016, the Group reclassified its current investments to cash and cash equivalents to reflect the expected cash flows of the Group over the next 12 months.

## Analysis of net debt (\$ million)

16	(3,777)	1,108
15	(3,504)	851 400

- ◆ Borrowings
- ◆ Cash and equivalents
- ◆ Current investments

In December 2016, the Group entered into a \$300 million credit facility agreement with the DBK. The facility bears interest at LIBOR plus 4.5% and is repayable in semi-annual instalments from June 2018 with the final repayment in June 2025. The borrowing was fully drawn by KAZ Minerals Aktogay LLC, the company operating the Aktogay operations and is guaranteed by KAZ Minerals PLC.

The Group announced that an increased commitment of \$50 million to the PXF facility had been agreed in December 2016 and was drawn before the end of the year. The Group also received a waiver of the net debt to EBITDA covenant under the PXF and CAT facilities which was to be tested at 31 December 2016. The covenant is next due to be tested on 30 June 2017. See going concern section for further information (note 2(a) of the consolidated financial statements).

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 triple-'A' rated liquidity funds. At 31 December 2016, \$784 million of cash and short-term deposits were held in the UK and Europe and \$324 million, including the December 2016 proceeds from the \$300 million DBK facility, in Kazakhstan and Kyrgyzstan. The proceeds from the \$300 million DBK facility were transferred to the UK in January 2017.

At 31 December 2016, borrowings (net of amortised fees) were \$3,777 million, an increase of \$273 million from the prior year reflecting a \$250 million draw down, net of fees paid, under the CDB Aktogay US dollar finance facility and draw downs of \$300 million and \$50 million under the DBK and PXF facilities. This increase was partly offset by principal repayments of \$321 million including \$183 million under the CDB Bozshakol/Bozymchak finance facility, \$116 million under the PXF facility, \$12 million under the CDB Aktogay RMB finance facility, and \$10 million under the CAT facility. The borrowings (net of amortised fees) consisted of \$1,703 million under the CDB Bozshakol/Bozymchak facilities, \$1,456 million under the CDB Aktogay finance facilities, \$297 million under the DBK facility, \$281 million under the pre-export debt facility and \$40 million under the CAT facility.



Full details of the terms of the Group's borrowings are included in note 24 of the consolidated financial statements.

## Other significant matters

### East Region closure provision

In 2016, the Group has updated its estimate of asset closure costs which resulted in a \$43 million increase to the provision in the East Region operations. In accordance with accounting standards, the provision has been calculated assuming none of the assets are sold, which management believe may be achieved for certain assets.

### NFC deferral contract agreement

On 17 November 2015, the Group signed an agreement with its principal construction contractor, NFC, to defer payment of \$300 million relating to the Group's Aktogay project. Under the revised terms, \$300 million of construction costs, which were scheduled to be paid in 2016 and 2017, will be settled in 2018. There was no change to the overall amount payable to NFC. The Group has recognised this liability as the services were delivered during 2016. Given the deferral, the Group has measured the liability using the effective interest method and applied a cost of borrowing of LIBOR plus 4.2%, being the interest rate on the US dollar CDB Aktogay loan. The discount arising from the effective interest method will be unwound over the repayment period. At 31 December 2016, \$284 million was recognised as a liability on the balance sheet, with \$250 million due in January 2018 and the remaining \$50 million due in July 2018.

## Going concern

The Group intends to enter discussions with the banks to achieve a refinancing of the PXF facility in the first half of 2017 with a view to amending the financial covenants to ensure a breach is not triggered and to increase available liquidity by extending the facility amount and the duration of the facility. Based on discussions with lenders, the Board is confident that the banks will view such a refinancing favourably provided the Group's debt service obligations continue to be maintained, which forecasts indicate will be the case. This conclusion is further supported by the short-term nature of the anticipated covenant breach and the high quality of the Group's assets, in particular, the Bozshakol and Aktogay mines which have long operational lives and provide large scale output at first quartile cash costs. The waiver obtained to the 31 December 2016 covenant testing and the additional \$50 million in commitments made available and drawn in December 2016 are further evidence of the support of the Group by its banks.

In the event of a sustained fall in commodity prices or a sustained fall in commodity prices coupled with lower than expected production from the ramp up of Bozshakol and Aktogay, other mitigating actions would be required to secure liquidity over the going concern period with a relatively modest additional liquidity requirement in the first quarter of 2018. As a result, the consolidated financial statements have been prepared on a going concern basis. See note 2(a) of the consolidated financial statements.

## Tax strategy and risk management

The Group is subject to taxation in the UK, Kazakhstan and the various foreign countries in which it operates. Tax legislation of the jurisdictions in which the Group operates differs and is subject to interpretation by management and the government authorities, and as such, creates a risk of non-compliance with specific tax requirements. Whilst the Directors believe that the Group is in substantial compliance with tax legislation and contractual terms entered into that relate to tax, the absence of established case history and the complexity and judgemental nature of tax legislation in certain jurisdictions result in additional risk for the Group. Specific areas of interpretation include the applicability of stabilisation under the Group's operating licences, including subsoil use contracts, the applicability of excess profits tax to the Group's mining and processing operations and the structuring of cross border transactions, particularly in respect of the application of transfer pricing policies.

The Group's core objectives in managing and controlling its tax affairs and related tax risks are as follows:

- ensuring compliance with applicable rules and regulations in the jurisdictions in which the Group operates; and
- structuring the business in the most efficient and transparent manner with the emphasis being on the maximisation of shareholder value.

The Group takes a responsible and transparent approach to the management and control of its tax affairs and related tax risks, and has therefore adopted a tax strategy, which has been approved by the Board, that is aimed at achieving the objectives, thereby aligning it with the Group's long-term strategy:

- the Group's tax risks are assessed as part of the Group's formal governance processes and are reviewed by the Chief Financial Officer who reports them to the Audit Committee on a regular basis;
- significant tax risks, implications arising from those risks and potential mitigating actions are considered by the Board when strategic decisions are being taken;
- the tax risks of proposed transactions or new areas of business are fully considered before proceeding;
- the half year and annual effective tax rate and the composition of the tax charge are reviewed by the Audit Committee as part of its remit in reviewing the half-yearly and annual reports;
- the Group builds an equitable relationship with the tax authorities in the jurisdictions in which it operates;
- the Group takes appropriate tax advice from reputable professional firms;
- where disputes arise with government authorities with regard to the interpretation and application of tax legislation, the Group is committed to addressing the matter promptly and resolving the matter with the relevant tax authority in an open and constructive manner; and

- the Group employs professional tax managers within the corporate head office and the operating businesses, and provides ongoing technical training to them.

### Total tax contribution

The Group has prepared its total tax contribution in line with the requirements of 'The Reports on Payments to Government Regulations 2014' (the Regulation). The Regulation's definition of Payments to Government includes fewer payment types, compared to the total tax contributions disclosed by the Company in prior periods. As such, the Group has also disclosed other taxes paid such as property taxes, employer and employee payroll taxes, environmental taxes and customs and duties. The total tax contribution of the Group amounted to \$227 million compared to \$195 million in 2015, with the increase attributed to the ramp up of the Bozshakol and Aktogay operations.

### Payments to governments

The table opposite includes the information in the format required to be disclosed under the Regulation, which became effective for the first time for the year ended 31 December 2015. The report reflects payments made in excess of £86,000 (\$116,000) for activities related to the exploration, prospecting, discovery, development and extraction of minerals by project and by government type and by country, but rounded to the nearest million. In addition to the disclosures required under the Regulation, the Group has presented in the same format, payments made for other types of taxes to more fully present its total contributions in the countries and regions in which it operates. Comparative information under the new regulations is not required and has not been presented.

For the year ended 31 December 2016, total payments to governments under the regulations amounted to \$170 million, while total tax contributions, which include tax payments not covered by the regulations, amounted to \$227 million and are reflected in the table opposite.

Social payments of \$8 million represent payments made to bodies, associations, trusts and other public interest groups located in the regions in which the Group operates and are reflected by mining licence where applicable. These payments include the transfer of assets at their book value, which the Group regards as social payments as these benefit the local communities.

The main areas of social spend in 2016 include health care, sports, education and transportation infrastructure in the areas in which the Group operates.

### Taxes paid (US\$ million)



- ◆ Total tax contribution
- ◆ Payments to government

## Payments to governments

\$ million	Corporate income taxes	Mineral extraction tax <sup>1</sup>	Withholding tax	Signature bonus and licence fee <sup>2</sup>	Social payments	Total payments to governments per regulation	Employer's payroll taxes	Property taxes	Environmental taxes	Employees' payroll taxes	Customs and duties	Total
<b>Kazakhstan</b>												
Artemyevsky – licence	–	11	–	1	–	12	1	–	–	1	–	14
Irtysky – licence	–	7	–	–	–	7	1	–	–	1	–	9
Orlovsky – licence	–	28	–	–	–	28	1	–	–	2	–	31
Yubileyno-Snegirihinsky – licence	–	4	–	–	–	4	–	–	–	–	–	4
Legal entity	31	–	–	1	4	36	5	1	1	6	–	49
<b>Total VCM</b>	31	50	–	2	4	87	6	1	1	10	–	107
Aktogay	8	19	1	1	1	30	1	2	–	2	2	37
Bozshakol	–	46	–	–	2	48	2	6	1	3	2	62
Koksay	–	–	–	–	–	–	–	–	–	–	–	–
All other entities/projects	–	–	–	–	–	–	4	–	–	6	–	10
<b>Total</b>	39	115	1	3	7	165	15	9	2	21	4	216
<b>Recipient</b>												
State budget	39	115	1	3	–	158	–	–	–	–	4	162
Local budget (Oblast, Akimat etc.)	–	–	–	–	7	7	15	9	2	21	–	54
<b>Total</b>	39	115	1	3	7	165	15	9	2	21	4	216
<b>Kyrgyzstan</b>												
Bozymchak project and legal entity paid to the State budget	–	3	1	–	1	5	1	–	–	1	–	7
<b>United Kingdom</b>												
Legal entity paid to HMRC	–	–	–	–	–	–	1	–	–	3	–	4
<b>Total payments to governments</b>	39	118	2	3	8	170	17	9	2	25	4	227

<sup>1</sup> The Mineral Extraction Tax is payable on the value of the mineral resources extracted based on average price of the minerals on the London Metal Exchange or on the London Precious Metal Exchange.

<sup>2</sup> Includes payments made as required under subsoil use licences and signature bonuses. At Artemyevsky, a \$1 million signature bonus was paid, while historical licence payments were made by Aktogay and VCM.







FROM  
PROMISE TO  
PERFORMANCE

# HEALTH AND SAFETY

Restructuring,  
focus on open  
pit projects

Zero fatalities  
in open pit  
operations

2014

2015

2016

Major growth  
projects  
recruitment

The health and safety risk profile of the Group is set to improve as we transition towards operations dominated by open pit mining. New joiners at Bozshakol and Aktogay undergo extensive training to establish a strong safety culture which we will apply to our other operations.

# Growing our business responsibly

KAZ Minerals is a responsible developer and operator of mining assets in Kazakhstan and Kyrgyzstan. Corporate responsibility is at the core of our strategy and licence to operate.

## Our approach to corporate responsibility

KAZ Minerals is a responsible developer and operator of mining assets in Kazakhstan and Kyrgyzstan. Corporate responsibility is at the core of our strategy and licence to operate. Our employees, investors, local communities, governments and other stakeholders expect us to develop mineral wealth for the benefit of wider society in Kazakhstan and Kyrgyzstan, to ensure our employees and contractors are provided with a safe working environment, to minimise the impact of our activities on the surrounding environment and local communities and to develop natural resources.

The Group began a period of significant growth in 2016 which is set to continue through 2017 and 2018. Throughout this period we will carefully manage the environmental and social impacts of our activities. Our impacts will increase in absolute terms as we grow our production, but we have invested in modern equipment and technology which will improve the overall efficiency of our operations.

## National context

KAZ Minerals is a major copper miner based in Kazakhstan and Kyrgyzstan currently employing around 13,000 staff across our operations and other facilities. The Group exported approximately 93 kt of copper cathode from Kazakhstan to customers in both Asia and Europe and our copper concentrate exports to China grew significantly in 2016, to 45 kt of copper cathode equivalent,

as we ramped up our first major growth project, Bozshakol.

As a result of our economic activities the Group generated revenues of \$766 million in 2016 and made a total tax contribution in Kazakhstan of \$216 million in 2016, including MET (\$115 million), Corporate Income Tax (\$39 million) and other taxes.

The Group also has a presence in Kyrgyzstan, employing approximately 1,100 staff and contractors at the Bozymchak copper and gold mine, and contributing \$7 million in taxes in 2016.

## Economic value generated and distributed

	2016 \$ million	2015 \$ million
Direct economic value generated		
Gross Revenues	969	677
Economic value distributed		
Operating cash costs <sup>1</sup>	288	265
Employee wages and benefits <sup>2</sup>	181	189
Payments to providers of capital <sup>3</sup>	179	147
Taxes paid <sup>4</sup>		
Kazakhstan	173	127
Kyrgyzstan	4	2
United Kingdom	—	6
Community investments <sup>5</sup>	8	15
Economic value retained	136	—

1 Operating cash cost as disclosed in the Finance review (see page 34), being the difference between Gross Revenues and Gross EBITDA adjusted to exclude total employee cost (see note 8 to the financial statements) and social spend, as reflected in the table above.

2 Employee wages and benefits represents cost incurred to the Group of the total labour cost and associated social taxes (see note 8 to the financial statements).

3 Payments to providers of capital represents interest paid on borrowing facilities during the period (see Cash Flow statement on page 114).

4 Taxes paid for each region is reflected in the payments to governments table on page 43 (see Finance review) and is the total taxes paid adjusted to remove employee and employers payroll taxes, which are reflected within employee wages and benefits for each region and excludes social spend, reflected as community investments.

5 Community investments represents the social payments as reflected in the payments to government table on page 43.





## Health and safety

### Fatalities

We are disappointed to report that there were six fatalities at our assets in 2016, consisting of five in the East Region and one contractor fatality at the Aktogay project during construction. In the East Region, three of the fatalities resulted from a single incident in the first half of 2016 at the Orlovsky mine involving two contractors and one KAZ Minerals employee. There were two other separate incidents in the second half of the year in the East Region.

### Fatalities



\*14C represents continuing operations only in 2014.

Following all fatal incidents, operations in the affected area are suspended until the authorities complete their investigations. After this process is completed a separate review is undertaken by the Group's Health and Safety team and mine management, including detailed root cause analysis. Measures are taken in light of these investigations to prevent the recurrence of the circumstances leading to the incidents, ensuring the learnings are shared across the operations.

KAZ Minerals considers all fatalities to be avoidable and has a target of zero fatalities. As activity transitions towards open pit operations the health and safety risk profile of the Group is expected to improve. No work-related fatalities have occurred in the mining or processing operations at Bozshakol, Aktogay or Bozymchak since the commencement of operations at each of those mines and the end of 2016. This reflects the safety culture and procedures we are seeking to establish at our new operations as well as the safer nature of open pit mining compared to underground mining. We continue to focus our efforts on driving improvements in the East Region mines to reduce fatalities to zero whilst embedding high standards in our new open pit operations.

### Total Recordable Injury Frequency Rate



### Total Recordable Cases



◆ Total Recordable Injuries  
◆ Total Recordable Diseases

### Total Recordable Cases Frequency Rate



### Injuries

The Group reports its health and safety performance according to the occupational injury and disease classification definitions published in January 2014 by the ICMIM.

In 2016, the number of man-hours worked increased from 40.8 million to 42.5 million while the number of recordable injuries remained constant at 51, unchanged from the prior year. Due to the additional hours worked in 2016 without injury the Total Recordable Injury Frequency Rate reduced to 1.20 (2015: 1.25).

### Improving our performance

A range of initiatives have been undertaken to improve the Group's health and safety performance and there has been a significant overall reduction in the number and rate of fatal incidents over the past few years.

In 2016 the Group's enhanced health and safety management standards were officially launched at sites, supported by leadership training sessions. Each mine will be assessed against the standards on an annual basis. At Bozshakol and Aktogay we are seeking to establish a strong health and safety culture from the outset with extensive training for new joiners. We are trialling an innovative pay incentive system at Aktogay focused on leading indicators, which seeks to reward safe behaviour and promote engagement on safety issues between supervisors and their teams. In the East Region, management are working to improve risk controls in key areas including ventilation, ground control, transport and equipment.

We have also taken several steps to address occupational health issues in 2016 which can affect workers in mines over the long term such as ergonomics, dust or noise. The Group health and safety team and specialist consultants visited sites and established methodologies to deal with the key risks in this area in our operations. Training was subsequently carried out for 40 relevant safety specialists across the Group to implement the new working practices.



Workers in the Bozshakol bagging plant

## Reducing our impact on the environment

KAZ Minerals is continually seeking to reduce the impact of its activities on the environment. Our business is changing rapidly as we have entered a period of significant expansion, with compound annual production growth of over 50% expected between 2015 and 2018 as we ramp up our major growth projects. 2016 is the first year in which Bozshakol and Aktogay made material contributions to the Group's output, increasing total ore processed to 15.7 million tonnes, compared to 4.6 million tonnes in 2015. Energy use per tonne of ore processed fell from 0.86 TJ to 0.46 TJ, demonstrating the improved efficiency of the new mines and their modern equipment.

### Energy intensity

(TJ total energy consumption per kt ore processed)



The efficiency of our operations should improve further, both on a per unit of ore processed and per unit of finished metal produced basis, as the recently commissioned plants increase recovery rates and reach design capacities in 2017 and 2018.

### Energy use

Total energy use increased by 82% as production ramped up at Bozshakol and Aktogay and as the Bozymchak mine in Kyrgyzstan operated for the whole of the year at full design capacity. Energy consumption in the East Region increased mainly due to periods of colder weather in 2016 compared to 2015, which resulted in an increase in heat energy consumed.

Energy use by type (PJ)	2016	2015
Electricity	4.27	2.02
Diesel	1.62	0.88
Heat	1.25	0.99
Coal	0.02	0.02
Petrol	0.06	0.05
<b>Total</b>	<b>7.22</b>	<b>3.96</b>



Modern and efficient processing facilities

Energy use by asset (PJ)	2016	2015
Bozshakol	2.44	0.43
Aktogay	1.05	0.12
East Region	3.39	3.15
Bozymchak	0.34	0.26
<b>Total</b>	<b>7.22</b>	<b>3.96<sup>I</sup></b>

I Methodology change to the recording of heat energy generated within the Group has resulted in a 0.68 PJ reduction in 2015 energy use. The total energy use was previously reported as 4.64 PJ in 2015.

The start of production from the sulphide concentrator at Bozshakol in February 2016 led to an increase in electricity consumption to 1.68 PJ from 0.15 PJ in 2015. Aktogay also increased its electricity consumption from 0.07 PJ in 2015 to 0.74 PJ as the oxide SX/EW processing facilities ramped up production in 2016.

Electricity consumption (PJ)	2016	2015
Bozshakol	1.68	0.15
Aktogay	0.74	0.07
East Region	1.69	1.70
Bozymchak	0.16	0.10
<b>Total</b>	<b>4.27</b>	<b>2.02</b>

Diesel consumption increased by 84% from 0.88 PJ in 2015 to 1.62 PJ in 2016 as mining activity at the new open pit mines ramped up to supply ore to the Bozshakol concentrator and Aktogay heap leach operations. Both Bozshakol and Aktogay have been designed to minimise road haulage. Remotely dispatched trucks are used to deliver ore from the pit to the crushers after which material is moved by conveyors to the on-site processing plants. Rail spurs to the national rail network extend into the processing plants where concentrate is loaded directly onto wagons and shipped by rail to end customers in China.

Diesel consumption (PJ)	2016	2015
Bozshakol	0.76	0.29
Aktogay	0.32	0.06
East Region	0.39	0.42
Bozymchak	0.15	0.11
<b>Group</b>	<b>1.62</b>	<b>0.88</b>



Bozshakol mining fleet utilises automated dispatch system

## CO<sub>2</sub> emissions

The Group's total emissions of CO<sub>2</sub> increased in 2016 by 61% from 915 kt to 1,473 kt, as copper production increased by 73%. Scope 1 emissions increased by 30 kt or 8% to 416 kt, mainly due to the increase in consumption of diesel by the Bozshakol and Aktogay mining fleets. Scope 2 emissions rose from 529 kt to 1,056 kt as power consumption at the Bozshakol sulphide concentrator and the Aktogay SX/EW processing facility increased during the year. Bozymchak also raised output in 2016 compared to the prior year, but this had a negligible impact on Group CO<sub>2</sub> emissions since power is drawn from mainly hydroelectric sources which have low carbon emissions.

Whilst total emissions have increased, emissions intensity per tonne of copper produced has decreased from 11.3 t in 2015 to 10.5 t in 2016. The carbon efficiency of our operations on a per tonne of ore processed basis has also improved significantly, from 0.20 tonnes of CO<sub>2</sub> in 2015 to 0.09 tonnes of CO<sub>2</sub> in 2016. This reflects the use of large scale, modern and efficient technology at the new Bozshakol and Aktogay mines.

CO <sub>2</sub> emissions by type (kt)	2016	2015
Scope 1	416	386
Scope 2	1,056	529
Group	1,473	915
Copper cathode equivalent production	140.3	81.1
CO <sub>2</sub> per unit of copper	10.5	11.3
Ore processed	15,688	4,571
CO <sub>2</sub> per unit of ore processed	0.09	0.20

The Group's overall CO<sub>2</sub> emissions will continue to rise with production growth, but as the more efficient operations at Bozshakol and Aktogay ramp up to design capacity, optimise recovery rates and contribute a higher proportion of output, the Group's intensity of CO<sub>2</sub> emissions per unit of production is expected to improve further.

## Water

All of KAZ Minerals' mining and processing sites benefit from access to sufficient fresh water and none of the Group's operations are located in water stressed areas. We seek to conserve and recycle as much water as possible, with the main sources of reusable water being tailings and mine water inflow. Each operational site uses a combination of surface water and groundwater sources and seeks to access different water sources to those used by the local communities.



Bozshakol tailings thickener

The withdrawal of water has doubled in 2016 compared to 2015 as the sulphide flotation process at Bozshakol required significant quantities of water during the initial ramp up of the concentrator. Whilst the Bozshakol and Aktogay sulphide concentrators are not located in areas with water shortages, they have been designed to be efficient and once water has been drawn into the system it is recycled, with losses only to evaporation and the water content in tailings. The concentrators are expected to recycle over 75% of water withdrawn. Water withdrawal will increase in 2017 as the Aktogay sulphide concentrator ramps up but in future years the Group's water withdrawal per unit of production is expected to decrease as return water becomes available from the tailings storage facilities.

Water withdrawal by asset (megalitres)	2016	2015
Bozshakol	15,863	24
Aktogay	1,105	354
East Region	13,291	14,772
Bozymchak	226	190
Group	30,485	15,340

Total water extraction was 30,485 megalitres, consisting of 20,278 megalitres extracted from surface water sources, including rivers or municipal water supplies, and 10,207 megalitres extracted from groundwater wells.

Water withdrawal by source (megalitres)	2016	2015
Surface water	20,278	6,745
Groundwater <sup>1</sup>	10,207	8,595
Group	30,485	15,340

<sup>1</sup> Groundwater sources include mine water inflow.

The total discharge of water back into the environment in 2016 was 5,302 megalitres (2015: 6,801 megalitres) and took place at three locations in the East Region. Two of these locations are at underground mining operations which are situated large distances from the processing plants, making it uneconomic to pump the water back for reuse. The third discharge occurs at waste rock dumps adjacent to a closed open pit mine, where acidic drainage water is collected. In each of these locations the water is treated prior to release to the environment and the quality of discharged water is monitored.



## Waste

Generation of waste rock from the mining of overburden at Bozshakol and Aktogay is not considered to be a significant stakeholder issue due to the remote locations of the mines and their separation distances from local communities. Waste rock generation increased to 19.1 million tonnes in 2016 (2015: 10.4 million tonnes) as the new open pit mines ramped up in 2016. Aktogay generated 1.3 million tonnes of waste rock in 2016 and will generate less waste per unit of ore mined due to its lower strip ratio of 0.2 compared to 0.7 at Bozshakol.

Waste rock by asset (Mt)	2016	2015
Bozshakol	11.2	5.2
Aktogay	1.3	0.5
East Region	0.7	0.2
Bozymchak	5.9	4.5
Group	19.1	10.4

Tailings increased from 3.9 million tonnes in 2015 to 15.1 million tonnes in 2016 mainly due to the commencement of production at the Bozshakol concentrator. Tailings generation will increase further in 2017 as the Aktogay sulphide concentrator commences production.

Tailings by asset (Mt)	2016	2015
Bozshakol	10.9	—
Aktogay	0.1	—
East Region	3.1	3.5
Bozymchak	1.0	0.4
Group	15.1	3.9

At Bozymchak, the Group employs a dry tailings facility where material is filtered before storage to reduce moisture content to approximately 14% before waste is deposited in plastic lined cells by conveyor. Use of this type of facility was selected during the design phase due to Bozymchak's mountainous terrain. At Bozshakol and



Yubileyno-Snegirikhinsky mine site



## Road improvement works in the East Region

In 2016, the Group supported the construction and maintenance of road and bridge infrastructure in the East Region of Kazakhstan, focusing on communities close to KAZ Minerals' operations.

Such investments are aimed at improving the condition of public routes used by the Group but are also undertaken to improve the standard of infrastructure available for the exclusive use of local communities.

Aktogay a central thickened discharge method is being established, which is most appropriate for the terrain and conditions at these sites. All of the Group's tailings facilities are subject to regular monitoring, both by management and by the authorities. The monitoring includes assessments of the structural integrity of the dams and sampling of nearby groundwater to confirm that no leakage is occurring. In 2016, the Group also engaged an internationally experienced consultant to perform a further review of its tailings dams which confirmed them to be operating within safe limits. Ongoing work programmes are in place to develop the tailings dams in line with future production plans and to address any issues identified.

## Mine closure

The Group complies in full with all regulations regarding the closure and rehabilitation of mining sites. In December 2016 mining operations at Yubileyno-Snegirikhinsky ceased as mineral resources at the mine were fully exploited. 118 employees have either been redeployed within the Group or accepted redundancy, whilst 40 employees will remain on site to supervise the process of decommissioning and rehabilitation. A closure plan is being developed and will be submitted for approval to the authorities. Remedial works to be performed will include the closure of all mine access points and shafts, the contouring of waste heaps, long-term monitoring and treatment of water runoff and the clearance of buildings and infrastructure. The site will be returned as closely as possible to its pre-development state as required by legislation.

## Environmental permitting and compliance

Environmental permits are granted for our operations, setting annual limits for emissions, water use and water discharge. If levels exceed these limits, charges are applied in proportion to the

amount of emissions or usage in excess of the limits. The Group reports the total charges paid and any material environmental incidents (with materiality determined by their nature or resulting in a fine in excess of \$100,000) in the Annual Report and Accounts and in the Corporate Responsibility section of its website. There were no material environmental incidents at our operations in 2016

The Group paid environmental charges of approximately \$640,000 in 2016 (2015: \$780,000) mainly in relation to tailings storage facilities. The payments were administrative in nature and not related to any potential risk to the environment or the safe operation of our tailings facilities.

## Employees

### General approach

The Group seeks to attract and retain skilled staff by offering safe working conditions, fair remuneration in line with market rates of pay and social benefits packages for its employees and their families.

### Ethics, compliance, anti-bribery and corruption

Integrity is one of the Group's five core corporate values and KAZ Minerals' Board holds ultimate responsibility for managing our approach to ethics and compliance. The Group's anti-bribery and corruption policy has been developed in line with the requirements of the UK Bribery Act 2010 and has been in force across all operations and applied to all contracts with suppliers since 2011. The Group maintains an anonymous reporting facility (Safecall) to encourage employees to report any concerns regarding breaches of ethics they may have. A risk assessment is used to identify the categories of employees who require training in anti-bribery and corruption, which includes employees in areas such as procurement and sales or those whose roles include interaction with the Government and regulatory bodies, and in general management positions.



Martial arts competition arena, Ust Kamenogorsk

KAZ Minerals has provided support for the construction of sports facilities in the East Region.

The Group is also supporting the construction of a new boarding school for children with high potential in sports, which will provide schooling for 350 male and female students aged between 7 and 11 years old.



Aktogay SX/EW laboratory

### Pay and benefits

We aim to provide fair remuneration to our employees and to incentivise safety and productivity. Both operational employee and divisional manager remuneration comprise base pay plus a discretionary award linked to health and safety performance and to production targets. Divisional manager remuneration also typically includes an element of discretionary bonus linked to production efficiency and cost control. Following the devaluation of the tenge on 20 August 2015, the Group has taken measures to reduce the impact of the weaker local currency on its employees and their families.

In accordance with regulations in Kazakhstan and our employee agreements, we make payments to employees and former employees for illness and disability sustained at our operations. The financial impact of our ongoing illness and disability obligations are covered in the consolidated financial statements on page 138.

### Equality and diversity

Our goal is to employ a skilled workforce that reflects the demographic of the regions in which we operate. We aim to develop the expertise required for our operations from our existing workforce, recruiting locally where possible. Our operations are located in Kazakhstan and Kyrgyzstan and, in 2016, 97% of the Group's permanent employees were Kazakh or Kyrgyz nationals. In circumstances where specialist skills are required, we draw on international expertise with a view to transferring knowledge and best practice in the medium to long term. The number of expatriates at KAZ Minerals is very limited, and they are largely employed at Bozshakol and Aktogay working alongside local teams who will take over the management of operations in due course. At Bozshakol, following the initial commissioning and establishment of working practices, operational management has been transferred from expatriates on fixed term assignments to permanent employees, with international expertise retained to provide support on specific technical matters.

Gender balance at our operations is relatively strong compared to the global mining industry. Women represent 26% of the entire workforce (2015: 27%) and 26% of senior management (2015: 27%).

### Training and development

Professional development is one of the Group's five core values. We are committed to ensuring that employees continue their professional development, with the aim of increasing productivity, efficiency and safety. The Group takes a long-term view of building capabilities and leadership qualities amongst its staff since these are critical to our growth strategy.

In 2016, employees each received an average of 45 hours of training consisting of 28 hours of safety training, 14 hours of professional education and three hours of additional education. All operational training includes a significant health and safety component that is not recorded separately as health and safety training. Topics include safe operation of machinery and vehicles, electrical and fire safety, labour protection training, physical fitness and professional development.

Training needs for the new workforces being built up at Bozshakol and Aktogay have been significant, where the aim is to transfer skills from senior and experienced team members to a new generation of operators. Targeted leadership training for mine managers focused on the implementation of health and safety standards took place in 2016, as well as training sessions for all staff designed to establish the Group's five core values of safety, long-term efficiency, teamwork, professional development and integrity.

### Consultation and communication

KAZ Minerals respects the right to freedom of association and we consult with our employees and trade unions about changes to our business and employment conditions. All employees are entitled to join a union of their choice. At the year end, 69% of the Group's employees in Kazakhstan belonged to one of the three trade unions active in the mining industry in Kazakhstan. At Bozshakol and Aktogay we have entered into collective agreements directly with employee representatives.

Health and safety issues are a shared priority between the Group and the trade unions that represent our employees. The unions engage actively with our sites to address the issue. In line with the collective bargaining agreement in place since 2014, a number of KAZ Minerals employees have been nominated as safety inspectors who report breaches they identify as part of their weekly inspections to the trade unions, who then discuss the matters with the senior management. Trade unions also play an important role in our employee engagement activities.



### Bozymchak mine site

At the Group's Bozymchak mine in Kyrgyzstan a programme of engagement and social spending is in place to maintain a strong relationship with the local community. The Group has invested in bridge repairs, road building, education, sport, health and other municipal facilities.

The Group's social activities in the district of Ala-Buka and the town of Kok Serek have received official recognition from the Government of Kyrgyzstan.



## Human rights

KAZ Minerals recognises all human rights as defined in the Universal Declaration of Human Rights. We are committed to ensuring our operations do not infringe on these rights, for instance by providing fair, safe and secure working conditions in line with the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. We respect the right to freedom of association and consult our employees and trade unions about changes to our business and employment conditions.

Local communities are consulted during project development and any major operational changes that may affect them, and we respect and protect local heritage and culture.

We do not tolerate child or forced labour at any of our operations. We comply with local legislation with regard to employee age, and do not employ anyone under the age of 18.

In accordance with the requirements of the Modern Slavery Act 2015, KAZ Minerals has undertaken a review of its operations and supply chain in 2016. The Group has adopted a new Suppliers Charter, incorporating a Code of Fair Employment which suppliers are required to comply with. A statement on Modern Slavery will be published on the Group's website in 2017.

## Social projects and local procurement

KAZ Minerals supports communities in Kazakhstan and Kyrgyzstan by investing in projects that benefit wider society in the areas close to its operations as well as national projects. Social investments totalling \$8 million were made in 2016 focused on healthcare, infrastructure development, childcare, education and sport.

The Group also prioritises local procurement to assist diverse economic growth within Kazakhstan. During 2016 the level of procurement from outside Kazakhstan has grown due to the development of the major growth projects at Bozshakol and Aktogay, which require a higher proportion of procurement from overseas sources. In the East Region local procurement remained high, at 76% of total spending.

## Changes to reporting in 2016

Minor adjustments have been made to our reporting in 2016 to further align with GRI4 guidelines, such as the inclusion of an Economic Value Generated metric and simplification of intra-Group classifications of energy use and water withdrawal. Following a change in methodology on energy reporting the Group's energy use in 2015 has been restated downwards by 0.68 PJ from 4.64 PJ to 3.96 PJ as energy associated with the conversion of coal to heat energy in the East Region has been removed from the Group's reported total energy consumption. Where possible, the Group intends to progressively align its reporting with the GRI4 framework, a set of sustainability reporting standards published by the Global Reporting Initiative (GRI). GRI is an independent organisation established in 1997 to create common standards for sustainability reporting by companies and governments.

## Materiality assessment

We have reviewed our materiality assessment in 2016 and promoted tailings management to a separate category in the 'high' business and stakeholder priority section, previously incorporated under 'waste management'. We have made this adjustment to reflect increased focus on this area across the mining industry in the wake of the Samarco tailings dam failure in Brazil at the end of 2015. As noted earlier, KAZ Minerals conducted an external review of its tailings storage facilities in 2016, further details can be found in the Environmental Impacts section of this report on page 50 and in the Risk Factors section on page 61.







FROM  
PROMISE TO  
PERFORMANCE

# SKILLS TRANSFER

Recruitment for  
Bozshakol and  
Aktogay commences

97%  
of workforce  
resident locally

2014

2015

2016

1,400 new  
employees  
trained

KAZ Minerals is committed to training and developing employees in its operations in Kazakhstan and Kyrgyzstan. We set out to transfer new skills to the local workforce and in the last two years have trained over 2,600 new joiners at Bozshakol and Aktogay.



# Effective risk management

Effective risk management is of critical importance for the operation of our business, shaping the Group's strategy and protecting its stakeholders.

Further details of the Group's approach to internal control are set out in the Governance Framework report on pages 68 and 83.

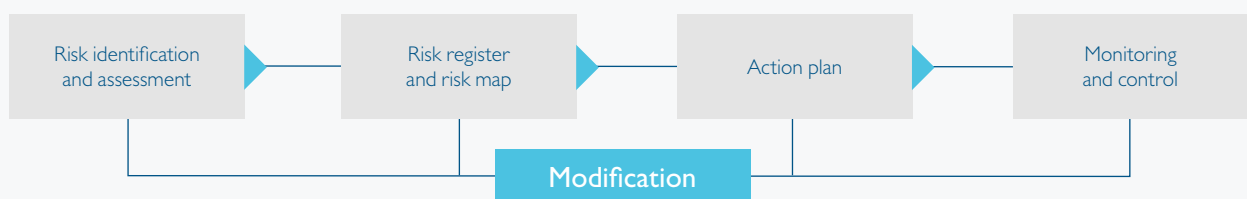
## Risk management framework

The Group operates a formal and rigorous risk management framework, designed to ensure that risks are clearly identified, effectively managed and continually monitored.

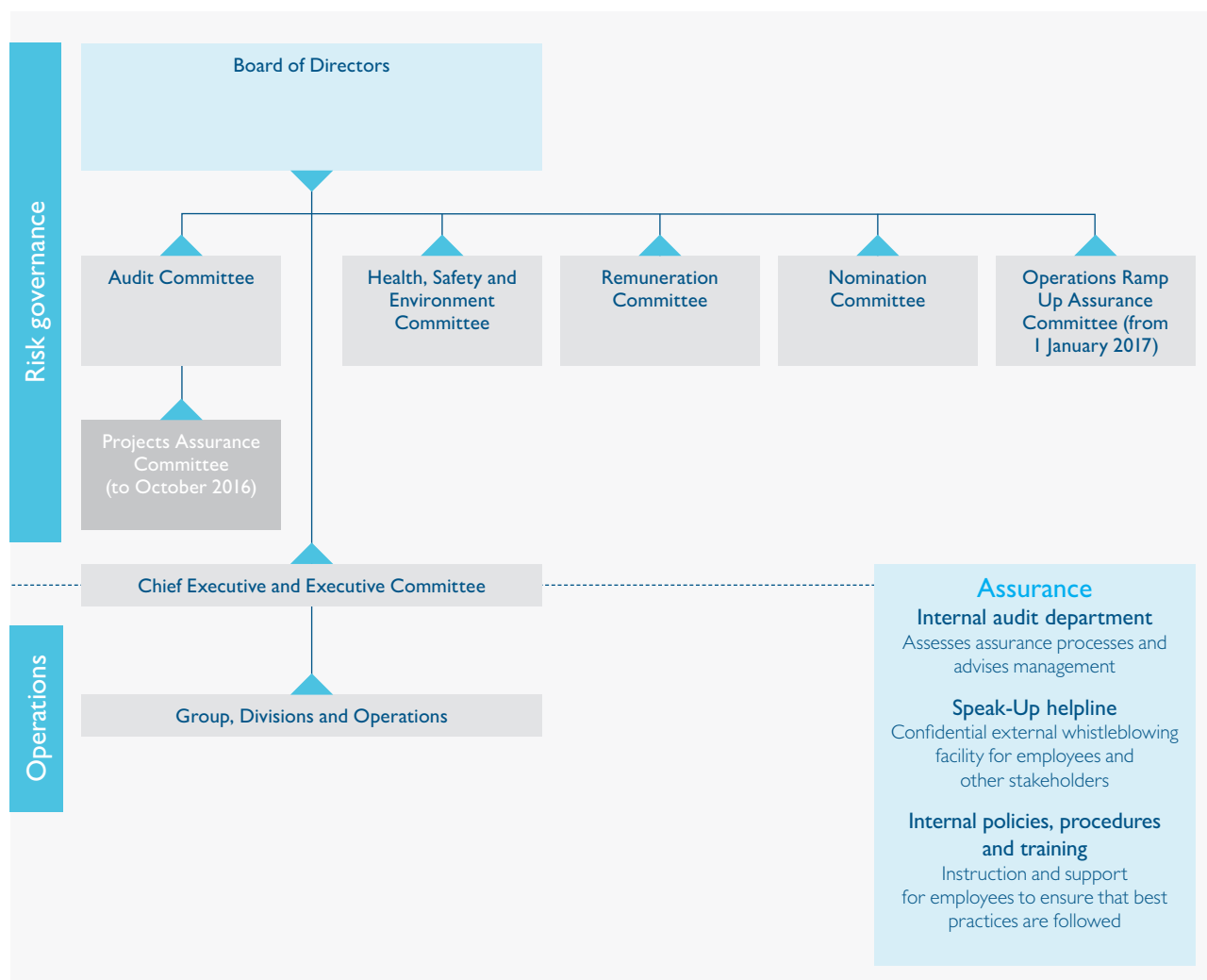
Under this framework, risk profiling exercises are undertaken by operating businesses, and at division and Group level, to identify, evaluate and control risk. The Group Risk Manager coordinates the risk assessments and identification activities, as well as facilitating the development of appropriate responses to identified risks. The Board and its committees are provided with detailed information to ensure that they are aware of the risks to the business and their respective responsibilities are set out opposite:

- The Board has overall responsibility for risk management and determines the Group's risk strategy, assessing the balance of risk necessary for the Group to carry out its business successfully and to achieve its strategic goals.
- The Audit Committee oversees the Group's risk management framework.
- The Projects Assurance Committee monitored risks relating to the delivery of the Group's major growth projects. Its work concluded in 2016.
- The Operations Ramp Up Assurance Committee monitors risks relating to the ramp up of operations at the Group's major growth projects. Its work commenced in 2017.
- The Health, Safety and Environment Committee reviews health, safety and environmental risk management across the Group.
- The Remuneration Committee ensures that the remuneration structure does not encourage excessive risk-taking by management.
- The Nomination Committee ensures that the composition of the Board and its Committees is appropriate to oversee risk management.
- The Chief Executive and Executive Committee implement the risk strategy determined by the Board.

## RISK MANAGEMENT FRAMEWORK



## RISK GOVERNANCE STRUCTURE



### Identification of principal risks

Through the risk management framework, the Group's principal risks are identified and each risk is assessed according to the potential severity of its effect and the likelihood of occurrence. The principal risks are placed on the Group risk map. The Board and Audit Committee receive benchmarking of the Group's principal risks against industry peers, review reports on the Group's risk environment and risk management activities and monitor

the Group risk map to ensure that risks continue to be accurately represented. This continual monitoring process indicates where mitigating actions need to be taken. Lower risk items are also continually assessed and monitored by management.

A description of our principal risks, including impact and mitigating actions, can be found on pages 59 to 62.

# Viability Statement

In accordance with the UK Corporate Governance Code, the Board has assessed the prospects of the Group's viability and has selected a period of three years for this assessment. The Board considers this timeframe to be appropriate as it covers the period in which the Bozshakol and Aktogay projects are expected to ramp up to capacity output and the Group's gearing metrics will fall from their current elevated levels. In addition, given the current uncertainties in the global economic outlook and for commodity prices, a longer-term period of assessment is not considered appropriate.

In making the assessment of viability the Board has considered the significant available liquidity on hand, the current status of Bozshakol and Aktogay and the principal risks to which the Group is exposed, as set out on pages 59 to 62. The most relevant risks to the assessment of viability are commodity price risk, new project delivery and commissioning, liquidity risk and foreign exchange and inflation risk. Down-side sensitivity analysis has been performed to assess the impact of a sustained reduction in the copper price from current levels, a slower than expected ramp up at Bozshakol and Aktogay and higher than anticipated cost inflation at the Group's operations. The analysis considered severe scenarios but not those which the Board considered to be implausible.

As detailed in the 'Going concern' section on page 116 of the financial statements, the Group's PXF and CAT facilities are subject to financial covenants, which are forecast to breach if tested for the period ending 30 June 2017. The Group intends to enter discussions with the banks to achieve a refinancing of the PXF facility in the first half of 2017 in order to amend the financial covenants to ensure a breach is not triggered and to increase available liquidity by extending the facility amount and the duration of the facility. The Board is confident the banks will view such a refinancing favourably provided the Group's debt service obligations continue to be maintained and considering the short-term nature of the breach and the quality of the Group's assets, in particular the Bozshakol and Aktogay mines which have long operational lives and provide large scale output at low cash costs. The waiver obtained to the 31 December 2016 covenant testing and the additional \$50 million commitments made available and drawn in December 2016 are further evidence of the support of the Group by its banks.

Assuming commodity prices perform in line with market consensus and Bozshakol and Aktogay production is in line with expectations the Board considers there to be adequate liquidity throughout the viability period provided that current borrowing facilities are maintained and without any increase in available liquidity from the PXF facility.

The Board is confident that a refinancing of the PXF facility is achievable on terms that are satisfactory to the Group which would provide adequate liquidity throughout the viability period in the event of a sustained reduction in the copper price from current levels or lower than expected production from Bozshakol and Aktogay.

In a more severe downside scenario, where a sustained reduction in the copper price is combined with lower than expected production from Bozshakol and Aktogay and an increase in operating costs, the Group would need to take mitigating actions in addition to the refinancing of the PXF facility. The Board believes it is increasingly unlikely, though not implausible that these events could occur due to the finely balanced copper market and the current progress at the major growth projects. In such a scenario, the Board would need to consider the deferral of uncommitted capital costs, new sources of available financing and/or a refinancing of the Group's existing debt facilities to provide sufficient liquidity throughout the viability assessment period, which, given the amounts required, the Board believes is achievable.

Following an assessment of the principal risks, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and will continue to meet its liabilities as they fall due over the next three years.



# Managing our risks

The Group's principal risks are set out below, along with mitigating actions. There may be other risks, unknown or currently considered immaterial, which might become material.

The risks set out below are not in order of likelihood of occurrence or materiality and should be viewed, as with any forward looking statements in this document, with regard to the cautionary statement.

## Health & safety

### Impact

Mining is a hazardous industry. Health and safety incidents could result in harm to people, as well as production disruption, financial loss and reputational damage.

### Mitigation

The Group's goal is for zero fatalities and to minimise health and safety incidents. Policies and procedures are designed to identify and monitor risks and to provide a clear framework for conducting business. This is supported by regular training and awareness campaigns for employees and contractors. Significant investment is being made into health and safety practices. Bozshakol and Aktogay are open pit mines which are inherently safer operating environments.

Further details of the Group's HSE function are set out in the Corporate Responsibility report.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Be a socially responsible operator

## Business interruption

### Impact

Operations are subject to a number of risks not wholly within the Group's control, including: geological and technological challenges; weather and other natural phenomena; damage to or failure of equipment and infrastructure; loss or interruption to key inputs such as electricity and water and the availability of key supplies and services, including the Balkhash smelter.

Any disruption could impact production, may require the Group to incur unplanned expenditure and negatively impact cash flows.

### Mitigation

In-house and third-party specialists are utilised to identify and manage operational risks and to identify improvements. Equipment and facilities are maintained appropriately and regularly inspected. Property damage and business interruption insurance programmes provide some protection from major incidents.

Should an outage occur at the Balkhash smelter the Group believes it could sell concentrate directly to customers.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets

## Political

### Impact

The Group could be affected by political instability or social and economic changes in the countries in which it operates. This could include the granting and renewal of permits and changes to foreign trade or legislation that could affect the business environment and negatively impact the Group's business, financial performance and licence to operate.

### Mitigation

A proactive dialogue is maintained with the Governments of Kazakhstan and Kyrgyzstan across a range of issues. Developments are monitored closely and lobbying is conducted where appropriate. Kazakhstan is one of the most politically stable and economically developed countries in Central Asia and the Board continues to view the political, social and economic environment within Kazakhstan favourably and remains optimistic about the conditions for business in the region.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

## Principal risks

### New project construction and commissioning

#### Impact

Projects may fail to achieve the desired economic returns due to an inability to recover mineral resources, design or construction deficiencies, a failure to achieve expected operating parameters or because of capital or operating costs being higher than expected. Failure to effectively manage new projects or a lack of available financing may prevent or delay completion of projects.

These risks will continue in 2017 during the ramp up of the Aktogay sulphide and Bozshakol clay plant. The speed of ramp up is dependent on the successful start-up and operation of equipment and the performance of suppliers and the workforce. These factors could result in delays which could impact cash flows, liquidity and financial results.

#### Mitigation

The Bozshakol and Aktogay major growth projects have been designed using modern, proven equipment and have experienced management teams. New projects are subject to rigorous assessment prior to approval including feasibility or technical studies and capital appraisal. Specialists are utilised throughout the life cycle of projects. Project management and capital expenditure planning and monitoring procedures are in place to review performance against milestones and budgets. This includes the Operations Ramp Up Assurance Committee which reports to the Board. Further details regarding the major growth projects are included in the Operating Review.

#### Link to strategy

-  Delivering major growth projects

### Community and labour relations

#### Impact

The Group operates in areas where it is a major employer, where employees are represented by labour unions and where it may provide support to the local community. This may impose restrictions on the Group's flexibility in taking certain operating decisions. Failure to identify and manage the concerns and expectations of local communities and the labour force could affect the Group's reputation and social licence to operate, and result in production disruptions and increases in operating costs. Wage negotiations could be impacted by higher commodity prices, higher domestic inflation or the continued weakness of the tenge.

#### Mitigation

The Group engages with community representatives, unions and employees and aims to address concerns raised by different stakeholders. Through responsible behaviour, acting transparently, promoting dialogue and complying with commitments the Group minimises potentially negative impacts. The Group has a social programme for employees and their dependants and works closely with authorities on social matters. Bozshakol and Aktogay are in remote locations where community relations risk is reduced.

Further details of the Group's social programme are set out in the Corporate Responsibility Report.

#### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Be a socially responsible operator

### Employees

#### Impact

The Group is dependent on its ability to attract and retain highly skilled personnel. Failure to do so could have a negative impact on operations or the successful implementation of growth projects and result in higher operating costs to recruit required staff. The remote location of some operations increases this challenge.

#### Mitigation

The Group actively monitors the labour market to remain competitive in the hiring of staff and provides remuneration structures and development opportunities to attract and retain key employees. The Bozshakol and Aktogay operations teams have a detailed recruitment and training plan and includes international workers with appropriate expertise during the initial operational years to assist the successful ramp up of the operations.

#### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Be a socially responsible operator

### Reserves and resources


#### Impact

The Group's ore reserves are largely based on an estimation method established by the former Soviet Union. There are numerous uncertainties inherent in estimating ore reserves, which if changed, could require the need to restate ore reserves and impact the economic viability of affected operations and development projects.

#### Mitigation

The Group's ore reserves and mineral resources are published annually in accordance with the criteria of the JORC Code and reviewed by an independent technical expert. This includes mine site visits where considered appropriate and the conversion from the former Soviet Union estimation to that prescribed by the JORC Code. Drilling and exploration programmes are conducted to enhance the understanding of geological information.

#### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

## Legal and regulatory compliance

### Impact



In Kazakhstan and Kyrgyzstan all subsoil reserves belong to the State and subsoil usage rights must be renewed. Legislation, including subsoil use laws and taxation have been in force for a relatively short period of time and may be subject to change and uncertainty of interpretation, application and enforcement.

Non-compliance with legislation could result in regulatory challenges, fines, litigation and ultimately the loss of operating licences. Substantial payments of tax could arise for the Group, or tax receivable balances may not be recovered as expected.

### Mitigation

Management engages with the relevant regulatory authorities and seeks appropriate advice to ensure compliance with all relevant legislation and subsoil use contracts. A specialist department is tasked with monitoring compliance with the terms of subsoil use contracts. Management works closely with the tax authorities in the review of proposed amendments to legislation. Further details of the Group's tax strategy and risk management are set out in the Financial Review. Appropriate monitoring and disclosure procedures are in place for related party transactions.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

## Environmental compliance

### Impact

Mining operations involve the use of toxic substances and requires the storage of large volumes of waste materials in tailings dams, which could result in spillages and significant environmental damage. The Group is subject to environmental laws and regulations which are continually developing, including those to tackle climate change. Failure to comply with applicable laws could lead to the suspension of operating licences, the imposition of financial penalties or costly compliance costs and reputational damage.

Increased levels of production from Bozshakol and Aktogay will increase the Group's environmental footprint and energy and water consumption.

### Mitigation

Policies and procedures are in place to set out required operating standards and to monitor environmental impacts. The Group liaises with relevant governmental bodies on environmental matters, including legislation changes.

Bozshakol and Aktogay utilise modern technology which will improve the Group's environmental efficiency compared to historic operations. Further details of the environmental measures being taken by the Group are set out in the Corporate Responsibility Report.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Be a socially responsible operator

## Commodity price

### Impact

The Group's results are heavily dependent on the commodity price for copper and to a lesser extent, the prices of gold, silver and zinc. Commodity prices can fluctuate significantly and are dependent on several factors, including world supply and demand and investor sentiment. The financial impact of commodity price movements on the Group's financial position will increase with the ramp up in output from Bozshakol and Aktogay.

### Mitigation

The Group regularly reviews its sensitivity to fluctuations in commodity prices. The Group does not normally hedge commodity prices, but may enter into a hedge programme where the Board determines it is appropriate 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.

### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

## Foreign exchange and inflation


### Impact

Fluctuations in rates of exchange or inflation in the jurisdictions to which the Group is exposed could result in future increased costs. As the functional currency of the Group's operations is the local currency, fluctuations in exchange rates can give rise to exchange gains and losses in the income statement and volatility in the level of net assets recorded on the Group's balance sheet.

### Mitigation

Where possible the Group conducts its business and maintains its financial assets and liabilities in US dollars. The Group generally does not hedge its exposure to foreign currency risk in respect of operating expenses. Further details are set out in note 31 to the financial statements.

### Link to strategy

-  Optimisation of existing assets



## Principal risks

### Exposure to China

#### Impact

Sales are made to a limited number of customers in China, with Chinese sales to increase further as copper concentrate output increases in 2017. Treatment and refining charges are dependent upon Chinese smelting capacity and the level of copper concentrate supply in the region.


China is an important source of financing to the Group with long-term debt facilities of \$3.2 billion at 31 December 2016. In addition, the Group uses contractors, services and materials from China.

#### Mitigation

Bozshakol and Aktogay produce a copper concentrate that is attractive to Chinese smelters, being 'clean' and high in sulphur content. The Group has established good relationships with strategic customers in China and has negotiated sales contracts for its 2017 production. The Group also intends to process a small portion of Bozshakol and Aktogay copper concentrate under a tolling arrangement with the Balkhash smelter.

The Group maintains relationships with a number of international lending banks, having the PXF facility and DBK facility in place and has the flexibility to consider other sources of capital if required.

#### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

### Acquisitions and divestments



#### Impact

The Group may acquire or dispose of assets and businesses which fail to achieve the expected benefit or value to the Group. Changing market conditions, incorrect assumptions or deficiencies in due diligence could result in the wrong decisions being made and in acquisitions or disposals failing to deliver expected benefits. The Restructuring was effected under the laws and regulations of Kazakhstan which are subject to change and open to interpretation, including the legal and tax aspects of the Restructuring in 2014, which could give rise to liabilities for KAZ Minerals.

#### Mitigation

A rigorous assessment process is undertaken to assess all potential acquisitions and divestments by specialist staff, supported by external advisers where appropriate. Due diligence processes are undertaken 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.

#### Link to strategy

-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

### Liquidity

#### Impact

The Group is exposed to liquidity risk if it is unable to meet payment obligations as they fall due or is unable to access acceptable sources of finance. Non-compliance with financial covenants could result in borrowing facilities becoming uncommitted and repayable.

The debt financing of the Bozshakol and Aktogay projects has resulted in an elevated net debt level. The level of net debt is expected to peak during 2017 and reduce as Bozshakol and Aktogay ramp up to full capacity.

Failure to manage liquidity risk could have a material impact on the Group's cash flows, earnings and financial position.




#### Mitigation

Forecast cash flows are closely monitored and the financing strategy is set by the Board. Adequate levels of committed funds are maintained with USD 1,108 million cash and committed facilities at 31 December 2016.

The Group has a successful track record of raising financing. During 2016 a \$300 million credit facility was agreed with DBK and the existing PXF facility was increased by \$50 million. The Group intends to resume discussions with the PXF banks over a longer-term refinancing of the facility, including renegotiation of covenants, following the waiver obtained earlier in the year related to the period ended 31 December 2016.

Further details regarding going concern and viability are included in note 2 to the financial statements.

#### Link to strategy

-  Delivering major growth projects
-  Optimisation of existing assets
-  Take advantage of natural resource opportunities in Central Asia

# DIRECTORS' REPORT

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104	Other statutory information

# Governance supporting growth



“KAZ Minerals’ corporate governance framework is in place to support the Board’s aim of achieving long-term, sustainable growth for shareholders.”

Simon Heale  
Chairman

## Dear shareholder,

I am delighted to present this overview of the Company’s corporate governance framework. I am fully committed to good governance and I firmly believe in the benefits that high standards of corporate governance bring to the Group.

The Directors’ Report has been prepared in accordance with the September 2014 edition of the UK Corporate Governance Code issued by the Financial Reporting Council (the Code). During the year, the Company complied fully with the provisions of the Code. The Governance Framework report on pages 68 to 83 explains in detail how the Company has applied the principles and complied with the provisions of the Code and sets out the activities of the Board and its committees and the matters which they have considered during the financial year.

In the Corporate Governance Overview in the 2015 Annual Report I reported that, during 2015, the Group had established its corporate values of safety, long-term efficiency, teamwork, professional development and integrity. During 2016, steps have been taken to embed these values into the business to help drive our corporate culture across the Group. Training and education in our values took place during the year and will continue during 2017. Internal policies and processes have been updated where necessary to reflect these values.

Succession planning is a key area for ensuring the long-term success of the Group. The Succession Management Programme was set up during 2016 with the aim of identifying future managers in the business, particularly as the major growth projects make their transition to steady state operations. Under the Succession Management Programme, individuals from across the Group with the potential to fill key positions in the future, are identified and given the necessary support and development to enable them to fulfil their potential.

KAZ Minerals’ corporate governance framework is in place to support the Board’s aim of achieving long-term, sustainable growth for shareholders. The four principal Board committees (Audit; Health, Safety and Environment; Remuneration; and Nomination) each deal with specific aspects of the Group’s affairs and have an important role in internal control and risk management within the Group. Summary information setting out the roles and responsibilities of each committee and the activities they have undertaken during the year is set out in their respective sections of the Governance Framework Report.

A new Board committee, the Operations Ramp Up Assurance Committee, commenced in early 2017 to oversee the ramp up of production at Bozshakol and Aktogay, replacing the Projects Assurance Committee which has completed its role of overseeing the delivery of our major growth projects.

I look forward to the successful ramp up of copper production from our new low cost mines, supported by our high standards of corporate governance.

Simon Heale  
Chairman





For more information, see pages

12 Chairman's statement

20 Strategy

## CORPORATE GOVERNANCE AT A GLANCE

### Highlights from 2016

- Our corporate values which were formulated in 2015 were rolled out throughout the Group ensuring that our corporate culture is aligned with our strategy and business model.
- The Operations Ramp Up Assurance Committee was established to provide independent assurance over technical and operational matters at our new mines.
- The Succession Management Programme was set up with a focus on succession planning, diversity and talent management.
- We have put in place our Modern Slavery Action Plan which includes our new Suppliers' Charter and Code of Fair Employment to demonstrate our commitment to ensuring there is no modern slavery within our organisation.

### Priorities for 2017

- The second phase of our Succession Management Programme will begin with individual development plans being designed and implemented.
- We will release our Modern Slavery Statement during the first half of the year and will continue to raise awareness throughout our operations of the importance of the prevention of modern slavery within our business.
- We will update our processes as necessary in accordance with the April 2016 edition of the UK Corporate Governance Code which will apply to us for the 2017 financial year.

## LIVING OUR VALUES

KAZ Minerals' corporate values are the principles by which we seek to conduct our business. They guide our decision making and how we monitor our performance.

By upholding these values we will build a strong internal culture, improve relationships with our external stakeholders and deliver value to our shareholders.

### Safety

- Protect the health and wellbeing of all of our employees and contractors
- Protect the safety of the environment

### Long-term efficiency

- Anticipate the long-term consequences of today's actions

### Teamwork

- Take responsibility for personal and team goals
- Accept compromise
- Encourage colleagues
- Appreciate different perspectives

### Professional development

- Improve competency and skills
- Education and training
- Share experience and knowledge with colleagues

### Integrity

- Honesty in everything that we do
- Keep promises, admit mistakes

### Board committee membership

The current membership of the Board's committees is shown in the table below:

	Audit Committee	Health, Safety and Environment Committee	Nomination Committee	Remuneration Committee	Operations Ramp Up Assurance Committee
Simon Heale	—	●	●	●	—
Oleg Novachuk	—	—	—	—	—
Andrew Southam	—	—	—	—	—
Lynda Armstrong	—	●	●	●	●
Vladimir Kim	—	—	—	—	—
Michael Lynch-Bell	●	—	●	●	—
John MacKenzie	●	●	—	—	●
Charles Watson	●	●	—	●	●

● Chair of committee ● Member of committee

# Board of Directors



**Simon Heale**  
Non-executive Chairman  
Appointed to the Board: 2007

**Skills and experience:**

Simon has significant business operations and management experience gained through a diverse range of industries. He served as chief operating officer of Jardine Fleming Limited, deputy managing director of Cathay Pacific Airways and chief executive of The London Metal Exchange. Simon was also a non-executive director and chairman of Panmure Gordon & Co plc, and a non-executive director of PZ Cussons plc, Morgan Advanced Materials PLC, Coats plc and Carlton Commodities Capital Corporate Member Limited. In his role as Chairman he encourages open and constructive debate and promotes effective decision making.

**Other appointments:**

Chairman of Gulf Marine Services PLC and Marex Spectron Group Limited. He was also a trustee and treasurer of Macmillan Cancer Support until 31 December 2016.



**Oleg Novachuk**  
Chief Executive  
Appointed to the Board: 2005

**Skills and experience:**

Oleg joined the Group in 2001 and was appointed Chief Executive in 2007, having been Finance Director since 2005. His business acumen and operational management provide a valuable contribution to the successful delivery of the Group's strategic objectives. He was formerly chairman of the board of directors of Kazprombank JSC.



**Andrew Southam**  
Chief Financial Officer  
Appointed to the Board: 2014

**Skills and experience:**

Andrew joined the Company in 2006 where he has held a number of senior positions, including Group Financial Controller and Deputy Chief Financial Officer. He was appointed Chief Financial Officer in 2013 and brings significant strategic and operational financial oversight. Andrew is a chartered accountant who began his career at Deloitte in London, where he provided audit and transaction services to a number of UK listed companies. Prior to joining the Company, Andrew worked in corporate development at GlaxoSmithKline plc.



**Michael Lynch-Bell**  
Non-executive Director  
and Senior Independent  
Director  
Appointed to the Board: 2013

**Skills and experience:**

Michael gained extensive experience working with companies in the mining, oil and gas industries during his 38 year career with Ernst & Young. He played a key role in establishing Ernst & Young's practice in Kazakhstan and advised a number of major CIS companies on transactions. He retired as senior partner of Ernst & Young's transaction advisory practice for mining and metals and as an elected member of its global advisory council in 2012. In his role as Senior Independent Director, Michael acts as a point of contact for shareholders and other stakeholders and serves as an intermediary for the other non-executive Directors.

**Other appointments:**

Non-executive director of Seven Energy International Limited, Lenta Ltd and Gem Diamonds Limited. He is also a trustee and treasurer of Action Aid International, a trustee of 21<sup>st</sup> Century Legacy and The Children of Sri Lanka Trust, and a member of the United Nations Expert Group on Resources Classification.



**Committee memberships:**

- |                                 |   |
|---------------------------------|---|
| <b>A</b> Audit Committee        | <b>H</b> Health, Safety and Environment Committee |
| <b>R</b> Remuneration Committee | <b>O</b> Operations Ramp Up Assurance Committee   |
| <b>N</b> Nomination Committee   | <b>●</b> Chair                                    |



**Lynda Armstrong OBE**  
 Non-executive Director  
 Appointed to the Board: 2013

**Skills and experience:**

A geophysicist by training, Lynda had over 30 years' natural resources experience with Shell. During this time, she held a number of senior exploration and operational roles, including director of UK Exploration and New Business Development, exploration director of Petroleum Development Oman and technical vice president for Shell International. Lynda's technical and operational experience of the extractives industry and her clear commitment to health and safety provide valuable insight and guidance to the Group.

**Other appointments:**

Chair of the trustees of the British Safety Council, a non-executive director of DONG Energy A/S and the Central Europe Oil Company Limited, a director of Calyx Consulting Ltd and a member of the supervisory board of SBM Offshore N.V.

**R N H O**



**Vladimir Kim**  
 Non-executive Director  
 Appointed to the Board: 2005

**Skills and experience:**

Vladimir joined the Group in 1995. He was appointed Chairman of the Company in 2005 prior to its listing on the London Stock Exchange. Vladimir stepped down as Chairman in 2013 but remains on the Board as a non-executive Director. With extensive knowledge of the mining industry, a thorough working knowledge of the CIS and an exemplary understanding of the political and regulatory environment in Kazakhstan, Vladimir brings valuable Kazakh mining experience and continues to perform a vital role in assisting and supporting the Company in its dealings with the Government and local authorities in Kazakhstan.



**John MacKenzie**  
 Non-executive Director  
 Appointed to the Board: 2015

**Skills and experience:**

John is a senior mining executive with more than 23 years' experience in the metals and mining sector mostly acquired with the Anglo American group where he was CEO of Zinc from 2006 to 2009 and CEO of Copper from 2009 to 2013. John brings extensive international operating experience and a wealth of health and safety knowledge to the Group gained in Africa, South America, North America and Europe.

**Other appointments:**

Executive chairman of Mantos Copper and chief executive officer of mining at Audley Capital Advisors LLP.

**A H O**



**Charles Watson**  
 Non-executive Director  
 Appointed to the Board: 2011

**Skills and experience:**

During his 29 years at Shell, Charles gained extensive experience in both operational management and major project delivery. At Shell he held a number of senior global executive positions, culminating in his appointment as executive vice president responsible for Russia and the CIS, including oversight of Shell's activities in Kazakhstan, chairman of Shell Russia and chairman of the board of directors for the Sakhalin Energy Investment Company. He was previously a non-executive director of Taipan Resources Inc. Charles' expertise in major project delivery and tenacity in the continued improvement in health and safety performance are of significant importance to the Group.

**Other appointments:**

Non-executive director of JSOC Bashneft.

**H A R O**



### Code compliance

This section has been prepared in accordance with the September 2014 edition of the Code, which applies to the Company's Annual Report and Accounts for the year ended 31 December 2016 and is available to view at [www.frc.org.uk](http://www.frc.org.uk).

During the year, the Company complied fully with the provisions of the Code.

### Leadership

#### The role of the Board

The Board is accountable to shareholders for managing the Company in a way which promotes its success. It ensures that there is a complementary balance in its strategy between promoting long-term growth and delivering short-term objectives.

The Board is primarily responsible for strategic direction and leadership, evaluating and managing risk and ensuring internal controls are in place. Its overriding duties are to run the Company as stewards for the Company's stakeholders, with good governance, strong values and a safety-driven and ethical culture.

There is a formal schedule of matters specifically reserved for the Board's decision which is reviewed regularly. A summary of the matters reserved for the Board is set out below. These are matters that are significant to the Group as a whole because of their potential strategic, financial and reputational implications or consequences. The Board has four principal committees to deal with specific aspects of the Group's affairs. The chairs of each committee provide detailed reports to the Board on the matters discussed at each committee meeting to ensure that all Directors have visibility of and the opportunity to discuss the matters being considered by each committee.



## MATTERS RESERVED FOR THE BOARD

#### Key matters reserved for the Board include the approval of:

- the Group's strategy and business plans;
- material restructuring or reorganisation, including major acquisitions, mergers and disposals and changes to the Group's capital structure;
- major Group financing, major capital expenditure and projects;
- the annual production plan and financial budget;
- the Company's dividend, Health, Safety and Environmental, Anti-Bribery and Corruption and Share Dealing Policies;
- the framework for the management of the Group's principal risks;
- the appointment and removal of Directors or the Company Secretary;
- the annual performance evaluation of the Board, its committees and individual Directors;
- annual and half-yearly reports, circulars and other shareholder documents and the principal regulatory filings with stock exchanges; and
- the appointment or removal of the Company's external auditors and main financial, legal and technical advisers.

The full schedule of matters reserved for the Board is available on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

## ROLES AND RESPONSIBILITIES

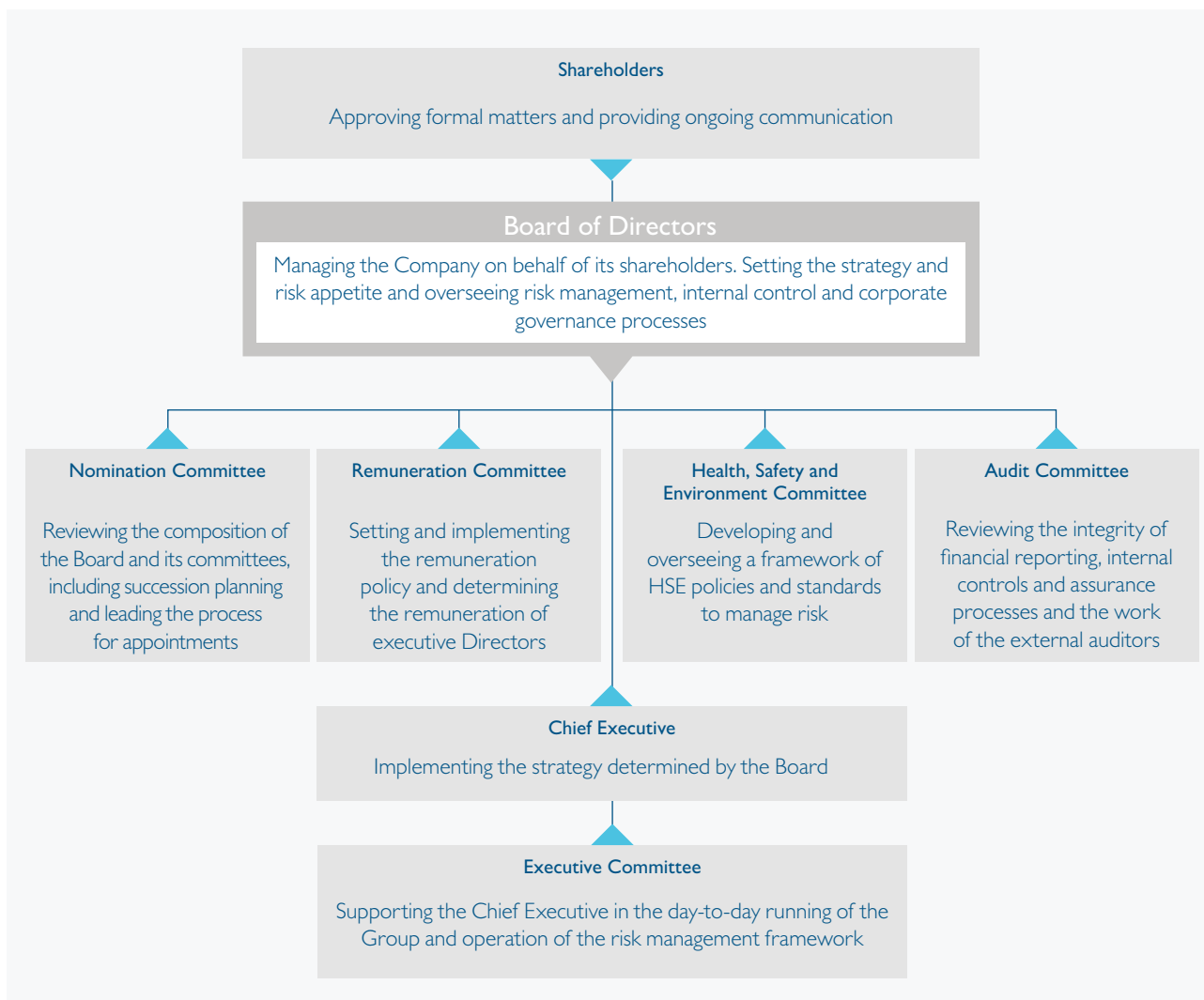
### Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive and the roles of the Chairman, Chief Executive and other Directors are clearly defined so that no single individual has unrestricted powers of decision.

A summary is set out below but for further information on the roles and responsibilities of the Chairman, Chief Executive and other Board members, please see the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

<b>Chairman</b> <b>Simon Heale</b>	<b>The key roles and responsibilities include ensuring that:</b> <ul style="list-style-type: none"> <li>• the Board and its committees operate effectively and in accordance with the highest standards of corporate governance;</li> <li>• the interests of the Group are promoted to secure its future success, with special regard to Group planning and development;</li> <li>• communication with shareholders is effective and the views of shareholders are heard and understood by the Board; and</li> <li>• Board meetings are effective and open and constructive debate is promoted, the views of all Directors are taken into account and adequate time is available for discussion on all agenda items.</li> </ul>
<b>Chief Executive</b> <b>Oleg Novachuk</b>	<b>The key roles and responsibilities include ensuring that:</b> <ul style="list-style-type: none"> <li>• the Group's strategic direction is appropriate and the agreed strategy is implemented;</li> <li>• a strong senior management team is in place to lead the day-to-day running of the Group's business in an effective manner;</li> <li>• a safety-focused culture is adopted throughout the Group's operations;</li> <li>• activities are undertaken with special regard to environmental and social concerns in the communities in which the Group operates;</li> <li>• staff recruitment and development is effectively planned and carried out;</li> <li>• the Group's risk profile is managed in line with limits which are deemed acceptable by the Board and an effective framework of internal controls and risk management is maintained;</li> <li>• appropriate annual budgets and medium-term financial and production plans are recommended to the Board;</li> <li>• the flow of information to the Board is relevant, accurate, timely and clear; and</li> <li>• there is good communication with shareholders and other stakeholders.</li> </ul>
<b>Senior Independent Director</b> <b>Michael Lynch-Bell</b>	<b>The key roles and responsibilities include ensuring that he:</b> <ul style="list-style-type: none"> <li>• acts as a point of contact for shareholders and other stakeholders to discuss matters of concern which would not be appropriate through the normal channels of communication with the Chairman, Chief Executive and Chief Financial Officer. No such matters of concern were raised by shareholders during 2016;</li> <li>• acts as a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary;</li> <li>• meets with the non-executive Directors (without the Chairman being present) at least annually and leads the Board in the ongoing monitoring and annual performance evaluation of the Chairman; and</li> <li>• is available to meet with a range of major shareholders when requested, to develop a balanced understanding of their issues and concerns and report the outcome of such meetings at subsequent Board meetings.</li> </ul>
<b>Non-executive Directors</b>	<b>The non-executive Directors have responsibility for:</b> <ul style="list-style-type: none"> <li>• providing an independent external perspective to the deliberations of the Board, drawing on their experiences from their careers in other businesses;</li> <li>• constructively challenging the strategies proposed by the executive Directors and scrutinising the performance of management in achieving agreed goals and objectives;</li> <li>• monitoring the Group's risk profile;</li> <li>• playing a key role in the functioning of the Board and its committees; and</li> <li>• providing between them an appropriate balance of skills, experience, knowledge and independent judgement.</li> </ul>

### CORPORATE GOVERNANCE FRAMEWORK



#### Effectiveness

##### Composition of the Board

The Board is currently comprised of the Chairman, two executive Directors and five non-executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of minority shareholders are protected. Biographies of all Directors are set out on pages 66 and 67.

It is the Company's policy that at least half the Board, excluding the Chairman, should be independent non-executive Directors. Other than Vladimir Kim, the Board considers each of its current non-executive Directors to be independent in character and judgement. In reaching its determination of independence, the

Board has concluded that each of Lynda Armstrong, Michael Lynch-Bell, John MacKenzie and Charles Watson provides objective challenge to management and is willing to defend his or her own beliefs and viewpoints in order to support the interests of the Company and its stakeholders. None of them has any business or other interests which are likely to, or could appear to, affect their judgement in their capacity as Directors of the Company. The Board carries out a review of the independence of its Directors on an annual basis. Vladimir Kim is not considered by the Board to be independent due to his significant shareholding in the Company.



## Commitment

Directors are expected to attend every Board meeting and every meeting of any committee of which they are a member, unless there are exceptional circumstances preventing their attendance. Scheduled Board and committee meetings are arranged at least a year in advance to allow Directors to manage other commitments.

Directors are provided with the relevant Board or committee papers for consideration around seven days in advance of each meeting via an electronic board portal. Regular agenda items this year included: reports on health, safety and environmental matters; cash forecasts; updates on Bozshakol and Aktogay and the East Region operations; requests for capital expenditure approval; reports on operational and financial performance, including cost optimisation measures; updates on the Group's principal risks and risk management processes; updates on business development projects and strategic matters; corporate communications; changes in corporate governance; and reports received from Board committees. If a Director is unable to attend a meeting due to exceptional circumstances, he or she still receives the papers in advance of the meeting and has the opportunity to discuss with the relevant chair or the Company Secretary any matters he or she wishes to raise and to follow up on the decisions taken at the meeting. The Chairman, Chief Executive and Company Secretary are always available to discuss issues relating to meetings or other matters with the Directors. Reasons for non-attendance are generally prior business or personal commitments that cannot be re-arranged or illness.

The number of scheduled Board meetings which each Director was eligible to attend, and the number of meetings attended during 2016 is shown below:

Directors during the year	Attendance at scheduled meetings during 2016
Simon Heale	6/6
Oleg Novachuk	6/6
Andrew Southam	6/6
Lynda Armstrong	6/6
Vladimir Kim	6/6
Michael Lynch-Bell	6/6
John MacKenzie	6/6
Charles Watson	6/6

In addition to the six scheduled meetings of the Board during the year, one further meeting was held which focused solely on a review of the Group's strategy and associated principal risks.

## Development

On appointment, all new Directors receive a comprehensive and structured induction, tailored to their individual requirements. The induction programme, which is arranged by the Company Secretary, includes visits to the Group's businesses and meetings with senior managers and external advisers, as appropriate. The programme is designed to facilitate their understanding of the Group, the key drivers of business performance, the role of the Board and its committees, and the Company's corporate governance practices and procedures. It also provides them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company listed on the London, Hong Kong and Kazakhstan Stock Exchanges.

To assist Directors in the performance of their duties, there are procedures in place to provide them with appropriate and timely information, including receiving information regarding Group business development and financial performance between meetings. This enables the Directors to discharge their duties effectively on strategic, financial, operational, compliance and governance issues.

Where appropriate, additional training and updates on particular issues are provided. During the year, the Board received briefings on Anti-Bribery and Corruption, the EU Market Abuse Regulation and the Modern Slavery Act 2015.

All Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal, financial and industry developments or changes in best practice. Typical training for Directors includes internal briefings, attendance at seminars, forums, conferences and working groups as well as the receipt of written and verbal updates from relevant bodies or external advisers on legal, regulatory and governance matters.

The Board receives regular reports on shareholder sentiment from the Head of Investor Relations to ensure that members of the Board remain apprised of the current views of shareholders. Non-executive Directors can attend meetings with shareholders and analyst presentations and all shareholders have the opportunity to meet informally with the Directors at the Annual General Meeting.

### Information and support

The Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with and that due account is taken of relevant codes of best practice. The Company Secretary is also responsible for ensuring communication flows between the Board and its committees, and between senior management and non-executive Directors. All Directors have access to the advice of the Company Secretary and in appropriate circumstances, may also obtain independent professional advice at the Company's expense. The appointment and removal of the Company Secretary is a matter reserved for the Board. The Company Secretary is Susanna Freeman who joined the Group in 2014 and was appointed in April 2016. She is admitted as a solicitor in England and Wales and over the course of her career has been company secretary of three other UK listed companies.

### Performance evaluation

An externally facilitated annual performance evaluation of the Board and its committees is carried out every three years, with internal annual performance evaluations carried out for the intervening years. The previous externally facilitated annual performance evaluation of the Board and its committees was conducted in 2015.

This year a full performance evaluation process of the Board and its committees, facilitated by the Chairman with the assistance of the Company Secretary, was carried out. An in depth questionnaire on the performance of the Board was circulated and completed by the Directors and focused on:

- strategy and risk evaluation;
- composition and capability;
- organisational behaviour and culture;
- risk management and internal control; and
- effectiveness of Board and committee meetings and communication.

Based on the responses received to the questionnaires, the Company Secretary prepared a thorough report which was circulated and presented to the Board at its meeting in December 2016. The overall conclusion was that the Board and its committees were operating effectively. A small number of potential improvement areas such as the addition of suggested agenda items, a review of Board meeting materials, the timing of meetings and a continued focus on succession planning were identified and are being incorporated into the Board and committee processes.

During the year, the Chairman held a number of meetings with non-executive Directors without executive Directors being present. As the Chairman's first three year term came to an end in May 2016, his performance was evaluated by the Nomination Committee and, following a positive review, a recommendation was made to the Board that he be appointed for a second term of three years. The Senior Independent Director also led the non-executive

Directors in evaluating the performance of the Chairman as part of the Board evaluation process and, following the evaluation, the Board remains satisfied that the Chairman continues to be able to fulfil all of the commitments required of the role to its satisfaction.

### Re-election

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the Annual General Meeting following their appointment. In accordance with best practice and the UK Corporate Governance Code, all current Directors will be submitted for re-election at the forthcoming Annual General Meeting.

Vladimir Kim (non-executive Director) and Eduard Ogay (former executive Director of the Company) are deemed to be acting in concert with each other by the Panel on Takeovers and Mergers and to constitute a Concert Party for the purposes of the City Code on Takeovers and Mergers. Under the Listing Rules, a Concert Party is classed as a 'controlling shareholder' of the Company. This means that the independent non-executive Directors of the Company must be elected or re-elected by a majority of votes cast by all shareholders. Therefore, at the forthcoming Annual General Meeting, the resolutions for the re-election of the independent non-executive Directors will be taken on a poll and passed only if a majority of votes cast by independent shareholders (which excludes Vladimir Kim and Eduard Ogay), in addition to a majority of the votes cast by all shareholders, are in favour.

### Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or could have a direct or indirect interest that conflicts or may conflict with the interests of the Company. The Company's Articles of Association give the Directors authority to approve such situations and there is no breach of duty by a Director if the relevant situation has been authorised in advance. In addition, a Director has a duty to disclose to the Board any transaction or arrangement under consideration by the Company in which he or she has a personal interest.

Directors are required to declare all directorships or other appointments outside the Group which could give rise to an actual or potential conflict of interest. Only the independent Directors are able to authorise such conflict situations and, where appropriate, this authorisation may be subject to certain conditions. Directors are also required to declare if there are any changes in circumstances that may affect an existing authorisation. The Company Secretary minutes the consideration of any actual or potential conflict of interest and any authorisation granted and maintains a register of this information.

The Company's Articles of Association also include provisions relating to the treatment of third-party confidential information received by a Director and the circumstances in which a Director should absent himself or herself from a Board meeting and refrain from reviewing Board papers in relation to a matter in which he or she has an actual or potential conflict. These provisions will only apply where the circumstance giving rise to the potential conflict of interest has previously been authorised by the Directors.

#### **Anti-Bribery and Corruption (ABC)**

The Group has in place an ABC Compliance Programme (the Programme) to assist in the prevention of unlawful activities by individuals or Group entities and to comply with the requirements of the UK Bribery Act 2010. The Board has a firm stance on bribery and corruption and attaches the utmost importance to the Programme in clarifying the standards expected of all employees of the Group wherever it conducts business.

The foundation of the Programme is the ABC Code, below which there is a subset of policies which provide a process for operating in accordance with the Programme in specific situations. These policies include the process for dealing with public officials, gifts and hospitality, third-party due diligence, conflicts of interest, lobbying, sponsorship and charitable contributions and Speak-Up. Training in ABC and awareness campaigns are carried out across the Group and monitoring and assurance is carried out by the internal audit team and by external advisers.

During 2016, in conjunction with the new corporate values training, ABC training of staff deemed as being high or medium risk was conducted and online testing was carried out to ensure there was a good understanding of the Programme. Awareness campaigns were undertaken, including by way of posters which were displayed around operations sites and the publication of articles in the corporate newsletter to promote awareness of ABC matters such as facilitation payments and the confidential Speak-Up facilities. Detailed work was also undertaken in relation to supplier due diligence including the publication of a Suppliers' Charter for distribution to suppliers as part of pre-contractual screening which sets out the Group's zero tolerance approach to bribery and corruption.

#### **Related party transactions**

The Group has in place a policy for the identification of related parties and the process for the approval of any transactions with these parties. Under this policy, all Kazakhmys group entities are deemed to be related parties due to Vladimir Kim's substantial shareholdings in both the KAZ Minerals Group and the Kazakhmys group. The list of related parties is regularly reviewed and updated throughout the year and, prior to entering into any related party

transactions, a review is undertaken to ensure that the proposed transaction is on an arm's length basis and on normal commercial terms. Specific consideration is given to the requirements under the Listing Rules.

#### **Competition policy**

A competition policy is in place to govern any dealings between the KAZ Minerals Group and the Kazakhmys group and their employees. This policy recognises that the two groups are competitors and its aim is to prevent anti-competitive behaviour. Prior approval is required internally within the KAZ Minerals Group before any Group company enters into any arrangement with a Kazakhmys group company. No competitively sensitive information can be exchanged between the parties except in relation to a specific business purpose and where suitable controls are in place.

#### **Succession planning**

The Group has conducted a review during the year of its personnel requirements and has developed a programme to manage succession planning to ensure that the Group has the necessary human resources to carry out its business successfully, especially in the area of production. The Chief Executive has been closely involved in this process together with the Group Human Resources Director. Key positions have been identified and potential successors assessed, following which they will be trained and developed. It is the Group's aim to develop its pipeline with regard to diversity, to ensure that there would be minimal impact on its business in the event that key staff were to leave the Group's employment. The composition of the Board has also been reviewed during the year and a succession plan for the Board is being developed.

#### **Accountability**

The Board considers the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the necessary information required for shareholders to assess the Company's position and performance, business model and strategy, and that the business continues to operate as a going concern.

#### **Risk management and internal control**

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in order to achieve its strategic objectives and for maintaining sound risk management and internal control systems. The Board has established a Group-wide system of risk management and internal control which identifies and enables management and the Board to evaluate and manage the Group's principal risks. Due to the limitations inherent in any system of internal control, this system provides robust, but not absolute, assurance against material misstatement or loss and is designed to manage rather than eliminate risk. The effectiveness of the Group's system of internal control is regularly reviewed by the Board.



The Board confirms that throughout 2016 and up to the date of approval of this Annual Report and Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council.

To assist in the identification and management of the Group's principal risks, the Board has established a risk management framework, developed a system of regular reports from management and reserved specific key matters for its decision. The Board has authorised the Audit Committee to oversee the risk management framework and the effectiveness of the Group's financial reporting, internal control and assurance systems. The Board is regularly presented with an update on the Group's principal risks together with a risk map, and any changes since the previous update are explained. Each Board committee provides an update on any risks considered within its remit when providing a regular update to the Board.

The Group's risk management framework is continually reviewed by the Board, with specific consideration given to material financial, operational and compliance controls, and steps are taken to address any issues. During 2016, no significant internal control failings were identified.

The Group's approach to risk management, the risks identified and how it profiles these risks is set out in the Risk Management Overview and Principal Risks section on pages 56 to 62.

### Internal audit

Internal audit advises management on the extent to which systems of internal control are appropriate and effective to manage business risk, safeguard the Group's resources, and ensure compliance with the Group's policies and legal and regulatory requirements. It advises on ways in which areas of risk can be addressed and provides objective assurance on risk and controls to senior management, the Audit Committee and the Board. Internal audit's work is focused on the Group's principal risks; the Head of Internal Audit and the Group Risk Manager work together when considering the appropriate scope and focus of internal audits. The three year programme of work of the internal audit department is considered and approved by the Audit Committee on a rolling annual basis, subject to any additional suggestions from the Committee. Under the approved internal audit plan, a number of audits take place across the Group's operations and functions to identify areas for improvement of the Group's internal controls.

Findings are reported to relevant operational management who put in place processes for strengthening controls. Internal audit follows up on the implementation of recommendations and reports on progress to senior management and to the Audit Committee.

The Head of Internal Audit reports regularly to the chair of the Audit Committee and attends each Audit Committee meeting to present the findings from internal audits. The Audit Committee reviews and discusses the usefulness of and learnings achieved under these audits on an annual basis with the Head of Internal Audit.

### Modern Slavery Act 2015

The Board recognises the importance of the provisions of the Modern Slavery Act 2015 and the Directors aim to ensure that slavery and human trafficking have no part in the Group's supply chain. The Group has always been vigilant about employee welfare and aims to be transparent in its practices. The Board has adopted a Code of Fair Employment which sets out the Group's stance in relation to forced labour, slavery, human trafficking and child labour and its commitment to ensure that there is no modern slavery within the Group. The Human Resources department has conducted a review to check internal compliance with the Code of Fair Employment and no instances of any breach were identified.

The Group has also adopted a Suppliers' Charter which sets out our expectations from our suppliers in relation to their treatment of their workers to ensure they are committed to employment practices which are acceptable to the Group. A number of our customers have already agreed under the terms of their contracts with us to comply with the principles of the Code of Fair Employment and to ensure there is no modern slavery within their operations.

The Company will publish its Modern Slavery Act statement later this year.

### Relations with shareholders

#### Dialogue with shareholders

The Board endeavours to ensure good communication with its shareholders and maintains an active dialogue with its key financial audiences including institutional shareholders, sell-side analysts, private individuals and potential new shareholders. The Head of Investor Relations is in communication with shareholders on a day-to-day basis and the Chief Executive and Chief Financial Officer are closely involved in planned investor relations activities at key times throughout the year. The Board is provided with shareholder and broader market feedback from the Head of Investor Relations at each Board meeting.

The executive Directors are available, through the Head of Investor Relations, to discuss the concerns of major shareholders at any time and the Chairman is available to discuss governance and strategy with them. Non-executive Directors make themselves available to attend meetings with shareholders when requested, in order to develop an understanding of their views. The Company responds as necessary to requests it receives from individual shareholders on a wide range of issues.

There is regular contact with key institutional shareholders, external financing providers and sell-side analysts to discuss the strategy, financial performance and investment activities of the Group. Meetings with management are also supplemented by visits to the Group's operations. During 2016, executive Directors and senior management held meetings with institutional investors in the United Kingdom, continental Europe and the United States of America and attended conferences in these locations, providing a comprehensive dialogue with shareholders and potential new investors.

During 2016, the Company issued quarterly production updates in January, April, July and October and interim management statements in April and October. These, together with copies of analyst presentations each half year, the Group's preliminary and half-yearly results and all announcements issued to the London and Hong Kong Stock Exchanges (in English and in Chinese), are available on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

#### **Annual General Meetings**

The Notice of Annual General Meeting is circulated to all shareholders at least 20 working days prior to such meeting and it is Company policy not to combine resolutions. All shareholders are invited to attend the Annual General Meeting where there is an opportunity for individual shareholders to question the Chairman and, through him, the chairs of the principal Board committees. After the Annual General Meeting, shareholders can meet informally with the Directors.

At the Annual General Meeting, the Chairman provides a brief summary of the Company's activities for the previous year to shareholders. All resolutions at the 2016 Annual General Meeting were voted on by way of a poll. The procedure for voting on a poll follows best practice and allows the Company to count all votes rather than just those of the shareholders attending the meeting.

As recommended by the UK Corporate Governance Code, all resolutions proposed at the 2016 Annual General Meeting were voted separately and the voting results, which included all votes

cast for, against and those withheld, together with all proxies lodged prior to the meeting, were announced to the London and Hong Kong Stock Exchanges and made available on the Company's website as soon as practicable after the meeting. As in previous years, the Form of Proxy clearly advised that a 'vote withheld' is not a vote in law and is not used in calculating the votes for or against a resolution.

#### **Board committees**

The four principal committees of the Board are Audit, Health, Safety and Environment, Nomination and Remuneration. Board committee members are appointed by the Board upon the recommendation of the Nomination Committee, which reviews the composition of each committee regularly. In accordance with their specific skills and experience, independent non-executive Directors (including the Chairman) are appointed to different Board committees.

The Projects Assurance Committee which was set up in 2012 reported into the Audit Committee. Its remit was to procure third-party, independent operational and financial assessments of the Group's major growth projects at Bozshakol and Aktogay and to identify activities that were critical to the successful delivery of the projects, and any issues and risks that were likely to preclude their successful delivery. As the focus is now on ramp up, the Projects Assurance Committee ceased its activities at the end of the year and the Operations Ramp Up Assurance Committee has been established. Its role is the oversight of technical and operational matters at Bozshakol and Aktogay with the objective of assuring that these operations implement systems and processes in line with good industry practice and achieve and maintain levels of performance that compare favourably with other world class copper assets of similar scale. This committee had its first meeting in February 2017.

Committee members are expected to attend each committee meeting, unless there are exceptional circumstances which prevent them from doing so. Only members of the committees are entitled to attend committee meetings, but others may be invited to attend.

The terms of reference of each committee are reviewed annually and are available to view on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)). They can be obtained on request from the Company Secretary at the Company's registered office.

#### **Board committee membership**

The current membership of the Board's committees is shown on page 65.

### AUDIT COMMITTEE



#### Dear shareholder,

This year John MacKenzie joined us as a member of the Committee and we have been fortunate to benefit from his significant experience in the copper mining industry. I would like to thank both John and Charles Watson whose valuable contributions have enabled the Committee to perform its duties effectively.

The Audit Committee reports to the Board on its assessment of effective governance in financial reporting, internal control and assurance processes and on the procedures in place for the identification and management of risk. During 2016 the Committee continued to focus on its core role of reviewing the Group's financial results, including significant financial reporting estimates and judgements, as well as the financial disclosures in the interim management statements, monitoring the Group's systems of internal control and risk management and overseeing the relationship with the external auditors and with the internal audit function.

In this report there is a summary of the significant issues that the Committee considered over the course of the year and the activities that it undertook in the performance of its duties.

Over the next 12 months, the Committee in addition to its usual duties, will continue to assess the implications of new accounting standards with a focus on IFRS 15 Revenues from Contracts with Customers, IFRS 16 Leases and IFRS 9 Financial Instruments. The Committee will continue to monitor tax developments arising from both Kazakhstan and the United Kingdom including updates on the OECD's Base Erosion and Profit Shifting (BEPS) project.

I would like to acknowledge the role that the Projects Assurance Committee has played in overseeing the development and delivery of the Group's major growth projects at Bozshakol and Aktogay. The Projects Assurance Committee concluded its work in October 2016, as the Group began to move into the next stage, ramp up of production at Bozshakol and Aktogay.

**Michael Lynch-Bell**  
Chair, Audit Committee

#### Composition

The current members of the Committee are:

Michael Lynch-Bell, Chair  
John MacKenzie  
Charles Watson

Michael Lynch-Bell has recent and relevant financial experience, having spent 38 years with Ernst & Young developing and later leading its global mining and energy practices. John MacKenzie has almost 25 years' experience in the metals and mining sector and was CEO of copper at Anglo American between 2009 and 2013 and Charles Watson has over 30 years' experience in the extractives industry. Accordingly, the Board considers that the Committee as a whole has competence relevant to the mining sector.

The Chairman of the Board, Chief Executive, Chief Financial Officer, Company Secretary, Head of Internal Audit and the lead partner and audit manager of the external auditors are usually invited to attend Committee meetings. At the end of each meeting the Committee meets separately with representatives of the external auditors and the Head of Internal Audit, without management being present, to discuss any matters arising from their audits or in relation to any other matter.

#### Role and responsibilities

The primary responsibilities of the Committee are set out on the pages that follow. Whilst the Committee has very specific duties which are set out in its terms of reference, its overarching purpose is to reassure shareholders that their interests are properly protected in respect of the Company's financial management and reporting. The Committee regularly updates the Board on matters discussed at its meetings. The Board has delegated responsibility to the Committee for monitoring the Company's procedures and system of internal control in relation to risk management and the Committee oversees the internal and external audit processes which report into it.

Key roles and responsibilities of the Audit Committee include:

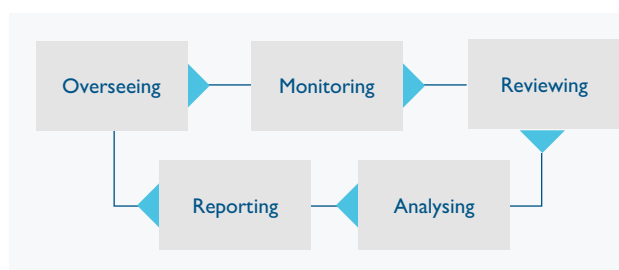
- monitoring and challenging, where necessary, the integrity of the financial statements, the annual and half-yearly results, interim management statements and any other formal announcement relating to financial performance, including a review of the financial reporting judgements which they contain;
- reviewing and challenging, where necessary, the actions and judgements of management taking into account the views of the external auditors in relation to the Company's financial statements, strategic report, financial review, governance statement (insofar as it relates to audit and risk management), half-yearly reports, preliminary announcements and related formal statements, including the going concern assumption and the viability statement;
- reviewing the Company's internal controls, including financial controls and risk management systems;



- approving the annual and three year internal audit plans and monitoring the role and effectiveness of the internal audit function;
- overseeing the work of the Projects Assurance Committee until October 2016;
- overseeing the Company's relationship with the external auditors, including the monitoring of their independence and expertise, the terms of their engagement and fees, and assessing the effectiveness of the audit process with due regard to relevant UK professional and regulatory requirements;
- agreeing the scope of the external auditors' annual audit plan and reviewing the output;
- reviewing and approving any changes to the policy on the provision of non-audit services by the external auditors;
- assessing annually the Committee's own performance, constitution and terms of reference; and
- reporting to the Board on how the Committee has discharged its responsibilities.

A copy of the Committee's terms of reference is available to view on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

## AUDIT COMMITTEE RESPONSIBILITIES



### Attendance at Audit Committee meetings

During 2016, there were six scheduled meetings of the Audit Committee, including two meetings which were convened to discuss one item of business only, the financial disclosures in the interim management statements, with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2016
Michael Lynch-Bell	27 February 2013	6/6
John MacKenzie	1 January 2016	6/6
Charles Watson	24 August 2011	5/6 <sup>1</sup>

<sup>1</sup> The meeting missed was to discuss one item of business only, the financial disclosures in the interim management statements.

### External auditors

KPMG were appointed as external auditors of the Group in 2012 following a formal competitive tender process and continue to be the Company's external auditors.

The appointment of KPMG is reviewed annually and the Committee undertook an assessment of the effectiveness of the external audit process during the year. Consideration was given to performance, objectivity, independence, resource and relevant experience of the external auditors and following the identification and discussion of improvements that could be implemented, the Committee recommended to the Board the reappointment of KPMG. The Committee believes that the Group continues to benefit from the insight and knowledge that the external auditors have of its business processes and controls and following the Committee's recommendation, the Board has approved resolutions to be proposed at the forthcoming Annual General Meeting, to reappoint KPMG as the Company's external auditors and to authorise the Directors to set KPMG's remuneration.

The 2016 financial year was the final year of Mr Daboo's five year rotation period as the lead audit engagement partner for KPMG and a successor has been identified.

In accordance with regulations on tendering audit contracts at least every 10 years, it continues to be the intention of the Committee that the external audit will be put out to tender by 2022 at the latest, subject to any further regulatory change.

### Policy on the provision of non-audit services

The Committee reviews annually the Group's policy on the use of the external auditors for non-audit services. The policy identifies those non-audit services which may, and those which may not, be provided and sets out the process through which non-audit services must be approved. Under the policy, the external auditors can only be used for non-audit services where there are benefits to the Group and the provision of such services will not threaten the external auditors' independence and objectivity.

Under the policy, any new engagement for non-audit services in excess of £100,000 must be approved by either the Chief Financial Officer and the Committee chair or a sub-committee of any two Committee members and certain engagements must additionally be subject to a competitive tender process.

Full information on engagements and total annual fees paid for non-audit services are reported to the Committee. Details of all fees paid to the external auditors for audit and non-audit services for the year ended 31 December 2016 and information on the nature of non-audit fees appear in note 10 to the consolidated financial statements on page 129.

### Activities in 2016

At its meetings in 2016, the Committee:

#### Financial reporting

- reviewed the annual and half-yearly results and interim management statements including the quality and acceptability of accounting policies, significant financial reporting estimates

and judgements applied in preparing them and the transparency and clarity of the disclosures within them and compliance with financial reporting standards and governance;

- considered whether the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the necessary information for shareholders to assess the Company's position and performance, business model and strategy;
- received reports from management and the external auditors on accounting, financial reporting, regulatory and taxation issues;
- considered impairment reviews performed by management;
- reviewed the methodology for producing the disclosure of ore reserves and mineral resources and other relevant disclosures in the Annual Report and Accounts;
- reviewed the basis for preparing the Group accounts on a going concern basis; and
- considered the viability statement to be made by the Company.

### Internal control

- reviewed the structure and effectiveness of the Group's system of internal control as set out on pages 73 and 74 and the disclosures made in the Annual Report and Accounts on this matter;
- reviewed and recommended to the Board amendments to the Group Treasury Policy;
- reviewed the Group's processes for disclosing information to the external auditors and the statement concerning such disclosure in the Annual Report and Accounts; and
- received reports from the Projects Assurance Committee.

### Risk management

- received an overview of the Group's risk environment and risk management activities together with analysis of the key risks to achieving the Group's strategic priorities;
- reviewed and challenged the Group's top 20 risks identified by management in the Group risk map and movements of those risks over the course of the year and received benchmarking of the Group's principal risks against industry peers;
- reviewed the effectiveness of the Group risk management framework as described on pages 56 and 57;
- reviewed reports from internal audit on issues identified and checked that there was an appropriate response from management;
- reviewed reports from external auditors on any issues identified in the course of their work including the internal controls report; and
- monitored the Group's catastrophic risk insurance arrangements.

### Internal audit

- approved the annual and rolling three year operational plans; and
- regularly reviewed reports from the internal audit department, received presentations from the Head of Internal Audit on internal control and followed up on the manner in which recommendations made in these audits had been addressed.

### External auditors

- approved the terms of engagement of the external auditors, the fees paid and scope of work;
- received reports on the findings of the external auditors during the half-yearly review and annual audit and reviewed the recommendations made to management by the external auditors and management's responses;
- reviewed the performance and effectiveness of the external auditors in respect of the previous financial year and recommended their reappointment;
- performed an annual review of the policies on the independence and objectivity of the external auditors, the use of the external auditors for non-audit services, and the employment of former employees of the external auditors;
- assessed the continued independence and objectivity of the external auditors; and
- reviewed the quality assurance processes of the external auditors and letters of representation to them.

### Other matters

- reviewed reports on changes to UK and Kazakhstan tax legislation;
- reviewed the Speak-Up policy;
- received reports on matters raised via the Speak-Up facilities, the process for the investigation of those matters raised, the outcome of any investigation and any actions taken in relation thereto;
- reviewed progress and suggested updates and improvements to the Group's Anti-Bribery and Corruption Compliance Programme;
- received an update from management on the latest technical accounting, taxation and regulatory issues;
- received a presentation on the structure and composition of the Group's finance function;
- reviewed the terms of reference and the results of the performance evaluation of the Committee; and
- reviewed the training requirements of the Committee members.

### Projects Assurance Committee

The Projects Assurance Committee, comprising Charles Watson (Chair), Oleg Novachuk, Lynda Armstrong and John MacKenzie, has overseen the development of the Group's major growth projects at Bozshakol and Aktogay since 2012. It met four times during 2016 to monitor construction progress, health, safety and environmental performance and overall operational readiness at the major growth projects. It regularly received reports and presentations from management and from independent consultants who conducted site visits in order to carry out operational and financial assessments.

As commercial production has been reached at both of the Bozshakol sulphide and Aktogay oxide plants, the operation of the Projects Assurance Committee concluded in October 2016.

## Significant judgements considered by the Audit Committee

The Committee considered, amongst other matters, a number of significant judgements in relation to the financial reporting of the Group, including:

Significant issue	Committee action
<b>Going concern and viability statement</b>	
<p>It is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2016. In reaching this conclusion, management took into account the financial position of the Group and its forecast cash flows and made certain assumptions and judgements as set out in the basis of preparation note 2(a) to the financial statements on pages 116 and 117 and in the Strategic Report on page 41.</p> <p>This Annual Report and Accounts also includes the viability statement in compliance with the UK Corporate Governance Code. Management considered the Group's viability statement, in addition to and together with the going concern statement, which is set out on page 58.</p>	<p>The Committee considered and approved the underlying assumptions used in the preparation of the viability statement, together with the going concern assumption. After reviewing papers prepared by management and taking into account the external auditors' review of the papers and their assumptions, the Committee concluded that it was appropriate to prepare the accounts on a going concern basis. The Committee considered the viability statement and going concern statement and approved management's disclosures.</p>
<b>Impairments – Group</b>	
<p>At 30 June 2016, a reduction in expectations for near-term copper prices was identified as an impairment indicator at the Group's Bozymchak operation which has been previously impaired and whose recoverable value is highly dependent on commodity prices in the near term. An impairment review was undertaken which found no impairment was required.</p> <p>At 31 December 2016, an assessment of impairment indicators across the Group's cash generating units was performed and did not identify indicators which would require an impairment review. Accordingly, no impairment reviews were performed on the cash generating units.</p>	<p>The Committee considered papers setting out the results of the impairment review at 30 June 2016 and management's assessment as at 31 December 2016. Having received input from the external auditors and challenged the appropriateness of key assumptions used by management in the discounted cash flow models at 30 June 2016 for the Bozymchak cash generating unit, as well as evaluating the assessment of impairment indicators at 31 December 2016, the Committee agreed with management's assessment and disclosures.</p>
<b>Impairments – KAZ Minerals PLC</b>	
<p>In the second half of 2016 the near-term outlook for the Group's main commodity, copper, materially improved, Bozshakol achieved commercial production and construction at Aktogay sulphide was substantially completed. Following these developments, the carrying value of the Company's investments was re-assessed and an impairment provision was partially reversed. See page 160 of the Company's standalone financial statements.</p>	<p>The Committee considered papers setting out management's valuation of the Company's investments. Having received input from the external auditors, challenged the appropriateness of key assumptions used by management in the discounted cash flow models and also considered external market valuations of the Group, the Committee agreed with management's assessment and disclosures.</p>
<b>Consideration and assessment of tax matters of the Group</b>	
<p>Due to the evolving nature of tax legislation and its application in Kazakhstan and Kyrgyzstan, management is required to make judgements and estimates in relation to tax risks, the outcomes of which can be less predictable than in other jurisdictions. Management has determined its best estimates for taxes payable and the likelihood and timing of taxes receivable, and accounted for them accordingly.</p>	<p>The Committee considered papers prepared by management and, after receiving input from the external auditor, concluded that the Group's tax position has been appropriately accounted for and disclosed.</p>
<b>Commercial production at Aktogay and Bozshakol</b>	
<p>The Aktogay oxide plant and the Bozshakol sulphide concentrator commenced production in the first quarter of 2016 and were considered to be in the 'pre-commercial production' stage, with revenues and operating costs capitalised to property, plant and equipment. Management monitored the performance of the respective plants during the year, in particular against their design capacities, and determined that the Aktogay oxide and Bozshakol sulphide plants achieved commercial production on 1 July 2016 and 27 October 2016, respectively, from which dates revenues and related operating costs are reflected in the Group's income statement.</p>	<p>The Committee considered papers prepared by management and, taking into account the external auditors' review of the papers and their assumptions, concluded that management's assessments of commercial production on both assets were appropriate.</p>

### HEALTH, SAFETY AND ENVIRONMENT COMMITTEE



#### Dear shareholder,

Over the course of the year, the Committee has continued to support the commitment of management to the control of health, safety and environmental (HSE) related risks, whilst providing essential challenge.

This year we conducted a thorough review of environmental reports from an independent expert on tailings dams, we received a report from the newly appointed Group Occupational Hygienist and we met with operational management and the Group HSE team in Kazakhstan.

The Committee has spent time monitoring compliance with newly implemented safety standards and has encouraged improved reporting clarity across the Group.

We made two trips to Kazakhstan in 2016, one in June and one in October 2016, to visit three of our operations. The Committee visited the two new mines, Bozshakol and Aktogay, as well as Orlovsky, an established underground mine in the East Region. During our visits to the operations we met with locally based staff and managers to gain a first-hand view of the risks and challenges faced by them, to see the Group's HSE initiatives in practice and discuss areas where improvements could be made and the ways in which these could be achieved. Our particular focus is helping the Group achieve its goal of zero fatalities.

The Committee has carried out a review of the three year HSE strategy and we look forward to seeing further progress made by the Group in all HSE areas over the next few years.

#### Charles Watson

Chair, Health, Safety and Environment Committee

#### Role and responsibilities

The Committee is primarily responsible for keeping under review the development and maintenance of a framework of policies and standards which are used to assess, manage and where possible prevent, health, safety and environmental risks. Reports on the Committee's reviews are then provided to the Board.

Two of the three meetings of the Committee during the year were held in Kazakhstan and involved meeting with management responsible for health and safety at the mine sites, with each visit lasting for two or three days.

Key responsibilities of the Committee include:

- assessing the impact of health, safety and environmental issues on the Group's stakeholders and ensuring remedial action is taken in respect of any such issues where appropriate;
- reviewing compliance by the Group with relevant health, safety and environmental legislation;
- monitoring and assessing the commitment and behaviour of management towards health, safety and environmental related risks;
- reviewing significant safety incidents, considering the key causes thereof and ensuring actions are taken to prevent similar incidents occurring;
- facilitating the promotion by management of a culture of care and sensitivity towards the environment and the communities in which the Group operates;
- making proposals to the Remuneration Committee regarding appropriate health, safety and environmental performance objectives for executive Directors and certain senior managers and providing its assessment as to performance against such objectives; and
- reviewing the findings of any internal or external reports on the Group's health, safety and environmental systems.

The Committee's terms of reference are available to view on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

#### Attendance at Health, Safety and Environment Committee meetings

There were three scheduled meetings of the Health, Safety and Environment Committee during 2016, with each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2016
Charles Watson	16 November 2011	3/3
Lynda Armstrong	21 October 2013	3/3
Simon Heale	13 March 2013	3/3
John MacKenzie	1 March 2015	3/3



The Senior Independent Director generally participates in site visits and Committee meetings at the invitation of the Committee.

## Activities in 2016

At its meetings in 2016, the Committee, amongst other matters:

- reviewed an update on the three year health and safety strategy implementation plan focused on strengthening the long-term foundations for safe productive work;
- received a status update on corporate responsibility reporting, including key performance indicators;
- reviewed and evaluated fatal and serious incident reports through the Fatal and Serious Incidents Review Panel and visited locations of fatalities and serious incidents at the mines;
- evaluated the Committee's effectiveness for 2016, including identifying training needs and reviewed its terms of reference and future role and direction;
- visited the mine and the primary crusher at Aktogay where the Committee met with local management and obtained an overview of the status of operational readiness;

- reviewed environmental reports prepared for the Group including the tailings dam report;
- met with management at Orlovsky and visited the underground mine;
- reviewed the Group's environmental strategy;
- met with management at Bozshakol and visited the clay plant, the mine and the concentrator; and
- received an update on the EMEX health and safety reporting system across the Group.

## Plans for 2017

In 2017 the Committee will seek assurance that health, safety and environmental systems, procedures and behaviours are well established in Bozshakol and Aktogay during the operational phase. The Committee will continue to monitor and assess HSE standards in the East Region and Bozymchak. Over the course of the year it plans to visit Artemyevsky mine in the East Region, as well as Bozshakol and Aktogay.

## Q&A with Charles Watson

### Q: What is the role of the KAZ Minerals Health, Safety and Environment Committee?

A: Operating safely and responsibly is central to KAZ Minerals' corporate values. The Committee's role is to support management in achieving the Group's goal of zero fatalities and minimising the impact of our operations on the environment. The Committee provides an independent perspective and challenge to operational management in these areas, drawing upon our experience gained in the mining and wider extractives industries and upon the advice of external experts. Through our site visits the Committee ensures that the expectations of the Board are clearly understood by local management, and that the Board is kept apprised of the challenges facing management as we work towards zero fatalities and a cleaner environment at our operations.

### Q: What have been the key areas of focus for the Committee this year?

A: There were three main areas of focus in 2016. One was reviewing and evaluating fatal and serious incident reports and visiting the locations of these incidents to see how they can be prevented in the future, the second was overseeing the establishment of global best practice standards right from the start at our new operations, Bozshakol and Aktogay, and the third was reassessing the key risks associated with underground mining in our operations in the East Region.

In the East Region operations we looked closely at the longer-term occupational health hazards which are inherent in underground operations. A Group Occupational Hygienist

was appointed during the year to work on this area and the Committee received valuable reports from him.

### Q: How important are Committee site visits and what is the priority for the Committee during these visits?

A: The Committee places great importance on visiting the Group's operations. The purpose is not only to see the mines in operation, but most importantly to meet with local management to gain an understanding of the risks and challenges faced by them and to demonstrate to them that they have the Committee's full support and engagement. During the visits, the Committee reviews reports on safety incidents which are presented by the relevant members of mine management and our trips usually include visits to incident sites. The Committee encourages local management to share experiences and learnings with each other. It is the discussions with management on challenging areas which bring valuable insights and provide the opportunity for the Committee to share its international experience with management.

### Q: What are the key health and safety challenges for copper mining companies operating in Kazakhstan?

A: The physical hazards in mines are no different in Kazakhstan from anywhere else in the world. The Group has made real progress over the last five years but we must improve performance further with additional investment and training. Culture and attitudes towards health and safety are vital. Management and the workforce in general are encouraged to apply the highest international standards. We incentivise safe behaviour in the workplace and we do not tolerate unsafe practices.

### NOMINATION COMMITTEE



#### Dear shareholder,

There were no changes to the Board over the year. The Committee met three times and some of the work carried out by the Committee is summarised below. Its duties under the Code are set out opposite.

During the year, after an in depth review of the Chairman's performance and contribution, it was recommended to the Board that the Chairman be appointed for a second term of three years from May 2016. In addition, three non-executive Directors were, following the Committee's recommendation, issued with new letters of appointment. Vladimir Kim, Michael Lynch-Bell and Lynda Armstrong were all appointed for a second term of three years through to 2019.

In light of the impending expiry of Charles Watson's second three year term on the Board in August 2017, a rigorous review of his independence was carried out by the Committee. Following this review it was determined that Charles Watson remained independent and, after considering the valuable role that he plays as Chair of the Health, Safety and Environment Committee, his leadership on the Projects Assurance Committee, as well as his overall contribution to the Board and its committees, it was decided that his appointment be renewed for a further one year term. In 2018 he will be in his seventh year as a Director of the Company, at which point his appointment will be considered again by the Committee.

In February 2017, the Committee considered and discussed a paper setting out the regulations and guidelines regarding the retirement of Directors at the Annual General Meeting and having discussed the performance of all Directors, concluded that it was appropriate to recommend that all the Directors be proposed to retire and stand for re-election by shareholders at the Annual General Meeting of the Company to be held in April 2017.

Following the decision to establish the Operations Ramp Up Assurance Committee (ORAC) to oversee the ramp up of production at the Group's major growth projects, the Committee recommended to the Board as members of the ORAC, John MacKenzie, Lynda Armstrong and Charles Watson. The Committee also unanimously agreed that John MacKenzie, with his significant operational mining experience, was the appropriate person to chair the ORAC and this recommendation was approved by the Board.

#### Simon Heale

Chair, Nomination Committee

#### Composition

The current members of the Committee are:

Simon Heale, Chairman  
Lynda Armstrong  
Michael Lynch-Bell

#### Role and responsibilities

The Committee is primarily responsible for leading the process for Board and committee appointments and for keeping under review the balance of skills, experience, independence, knowledge and general diversity on the Board to ensure the balance and composition of the Board and its committees remains appropriate.

The Committee, which provides a rigorous, formal and transparent procedure for the appointment of new Directors to the Board, generally consults with external consultants and advisers on prospective Board appointments. The Committee keeps under review the planned and progressive refreshing of the Board and its committees. It assesses the performance of current Directors and makes recommendations to the Board for their reappointment where appropriate as well as advising the Board on the terms of any reappointment. It supervises and puts in place succession planning for non-executive Directors and certain senior managers and, where appropriate, makes recommendations to the Board on Directors' conflicts of interest for authorisation.

Key roles and responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including skills, experience, independence, knowledge and general diversity) of the Board and making recommendations to the Board with regard to any changes;
- overseeing succession planning for Directors and certain senior managers, taking into account the challenges and opportunities facing the Company, and the skills and expertise that will be needed on the Board in the future;
- responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise in light of the role and capabilities required for a particular appointment;
- keeping under review Directors' existing and any new conflicts of interest and making recommendations as to whether a conflict should be authorised;
- reviewing the results of the Board performance evaluation process in relation to the composition of the Board and reviewing annually the time commitment required from the non-executive Directors to fulfil their duties;
- reviewing annually the Committee's own performance, constitution and terms of reference;
- recommending to the Board suitable candidates for the membership of Board committees;
- recommending the reappointment of any non-executive Director at the conclusion of their specified term of office; and

- recommending the re-election by shareholders of any Director in accordance with the provisions of the UK Corporate Governance Code.

The Committee's terms of reference are available to view on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

### Attendance at Nomination Committee meetings

There were three scheduled meetings of the Nomination Committee during 2016, each member attending as shown below:

Members	Committee member since	Attendance at scheduled meetings during 2016
Simon Heale	1 January 2007	3/3
Lynda Armstrong	7 May 2015	3/3
Michael Lynch-Bell	1 September 2013	3/3

### Governance

The Committee is chaired by the Chairman of the Company and, whilst he is not deemed to be independent, the majority of the members of the Committee are independent non-executive Directors in accordance with the provisions of the UK Corporate Governance Code. If a matter concerns the Chairman, then he leaves the meeting and Michael Lynch-Bell takes the chair.

### Diversity

The Board is comprised of Directors with a wide range of skills and business experience drawn from a number of industries, which enables different perspectives to be brought to Board discussions. Furthermore, the Board is made up of a variety of nationalities, which brings cultural diversity as well as different geographical experiences and viewpoints. The combination of these factors means that the Board benefits from many different competencies, perspectives and thoughts, which provides a dynamic environment for decision making. When recruiting, the Board seeks to maintain its diversity.

The Board recognises the need to create conditions which foster talent and encourage all employees to achieve their full career potential in the Group. As part of the Group's overall approach to human resource management it encourages employee diversity and aims to ensure that KAZ Minerals' future senior leadership team reflects the demographics of the countries in which it operates and the general employee base. Despite mining being traditionally a male dominated industry, 26% of our employees are women and at senior management level the same percentage of Group employees are women.

### Activities in 2016

At its meetings in 2016, the Committee amongst other matters:

- recommended the reappointment of the Chairman and three non-executive Directors each for a second term of three years and recommended the appointment of Charles Watson for a further term of one year following the end of his six year period of appointment to the Board;
- in accordance with the Company's Articles of Association, recommended to the Board the re-election of all Directors by shareholders at the 2016 Annual General Meeting having due regard to the performance and ability of each Director to continue to contribute to the Board and its committees;
- recommended to the Board the composition and chairship of the Operations Ramp Up Assurance Committee;
- reviewed the time commitment required by non-executive Directors to fulfil their duties; and
- amended its terms of reference and conducted a review of the results of the performance evaluation of the Committee.

### Recruitment process

For the recruitment of new candidates to fill appointments to the Board we use recruitment firms who specialise in the recruitment of high calibre executive and non-executive candidates and have no other connection with the Company, to ensure that we have access to a wide and high calibre pool of candidates from which to choose. A formal, rigorous and transparent search process is put in place with a candidate profile and position specification prepared, including time commitment expected and experience required. Interviews are then conducted by the Chairman, the other members of the Committee and the Chief Executive.

# Remuneration report



**“The Group’s performance in 2016 has been strong, with management overseeing the delivery of significant production growth whilst maintaining control of costs.”**

**Lynda Armstrong OBE**  
Chair of the Remuneration Committee

## Dear shareholder,

On behalf of the Board, I am pleased to present the Directors’ Remuneration report for 2016.

The Committee’s objectives are to design and implement a remuneration framework which promotes the long-term success of the Company. It focuses executives on delivery of the Group’s strategic and business objectives, whilst relating reward to performance, in the context of appropriate risk and safety management. Aligning the interests of executive Directors and senior managers with those of shareholders, helps build and maintain a sustainable performance culture.

The current remuneration structure is simple, comprising fixed pay, an annual bonus and grants of long-term performance-based share awards. Over recent years we have also adopted a number of best practice features such as malus and clawback provisions and a two year holding period for vested performance shares.

As part of the three year renewal cycle set out in the reporting regulations, the Company is required to seek shareholder approval for a new remuneration policy at the 2017 Annual General Meeting. The previous remuneration policy presented at the 2014 Annual General Meeting was supported by more than 99% of shareholders. Overall, the Committee is of the view that the existing structure continues to support the strategic ambitions of the Group and is aligned with shareholders’ interests. Therefore, the Committee is not seeking to make any major changes to remuneration arrangements as part of the process for renewal of the remuneration policy.

## 2016 performance and reward

The Group’s performance in 2016 has been strong, with management overseeing the delivery of significant production growth whilst maintaining control of costs. Bozshakol commenced output in February 2016 and, together with Aktogay oxide, contributed 62.5 kt of incremental copper production in the year. Bozymchak operated at design capacity throughout the year

and, together with the East Region, met or exceeded production guidance across all metals. The overall Group net cash cost was 59 US\$/lb, positioning KAZ Minerals amongst the lowest cost, pure-play copper companies.

Significant progress was made on the Group’s strategic objectives, with the construction of Aktogay sulphide being substantially completed in December 2016 and the capital budget for the project being reduced by a total of \$200 million during the year. KAZ Minerals successfully secured \$350 million in additional facilities in 2016, providing further liquidity over the ramp up period of the major growth projects. The level of advancement in the delivery of the Group’s high growth, low cost strategy in 2016 has also been reflected in the Group’s share price.

A number of important long-term safety initiatives were progressed during 2016 and we hope that these will make a real difference to the safety of our operations. However, the number of fatalities in 2016 has increased compared to the prior year, with three occurring in 2016 as a result of a single incident. In light of this the Committee exercised discretion to scale back bonus pay outs in respect of 2016.

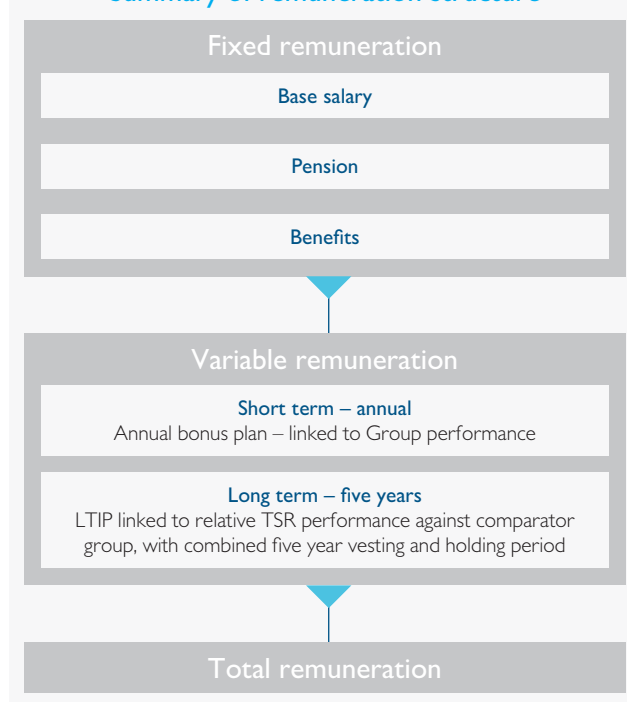
The overall level of performance achieved resulted in annual bonus awards of 67% of maximum potential for both Oleg Novachuk and Andrew Southam.

The Long Term Incentive Plan (LTIP) awards granted in 2014 were based on relative Total Shareholder Return (TSR) performance against sector peers. The final performance period for this award will end on 31 May 2017 and the current expectation is that this award will partially vest. The share price has increased by 63% over the three years to 31 December 2016, which in part recognises how our major growth projects are reaching completion and escalating production. During 2016, the TSR of the Company’s shares was 249%, compared with the return on the FTSE 350 Mining Sector Index of 106%. The Committee is pleased to see management rewarded for this performance.



## EXECUTIVE DIRECTOR REMUNERATION STRUCTURE

### Summary of remuneration structure



### Annual General Meeting and other technical matters

Our current share plans, the LTIP and the Deferred Share Bonus Plan were originally adopted in 2007 and are due to lapse in 2017; accordingly, resolutions will be put forward to shareholders at the 2017 Annual General Meeting to renew these Company share plans. The intention is for the key terms of the current plans to be rolled forward, however, the opportunity has been taken to review the detailed plan provisions to ensure they remain consistent with evolutions in market and best practice. Overall, the manner in which the share plans will be operated will remain broadly unchanged in future years.

In addition, an amendment to the 2007 Deferred Share Bonus Plan rules is proposed at the 2017 Annual General Meeting, to allow existing awards granted under this plan to be satisfied with new issue and/or treasury shares. Any use of new issue or treasury shares would be limited by the same 'dilution limits' as those applying to the new plans.

In line with the relevant regulatory requirements, the Annual Report on Remuneration and this annual statement will be subject to an advisory vote at the forthcoming Annual General Meeting, while the updated remuneration policy and share plans will be subject to a binding vote. The current remuneration structure continues to work well and there is considerable merit in maintaining the current framework, therefore I am pleased to recommend these proposals to shareholders. The members of the Committee welcome any questions on remuneration matters at the 2017 Annual General Meeting and we are available at any other time to discuss feedback on the new policy and its implementation.

### Implementation of remuneration policy in 2017

As noted on the previous page, the Committee does not intend to make any major changes to remuneration arrangements in respect of the coming year.

#### The key points to note in respect of 2017 are as follows:

- The Chief Executive's salary will once again not be increased; the Chief Financial Officer's salary will increase by 1%;
- The maximum bonus opportunity will continue to be 150% of salary for the executive Directors (lower than the limit allowed for within the new remuneration policy), with 70% based on operational and financial targets and 30% based on strategic development goals; and
- LTIP awards will continue to be based on relative TSR performance with award levels for the Chief Executive and Chief Financial Officer of 150% of salary and 125% of salary, respectively, (again, lower than the 250% allowed for in our existing remuneration policy and the 200% allowed for within our new remuneration policy).

### Lynda Armstrong OBE

Chair of the Remuneration Committee

# Remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). When reviewing the remuneration framework, the Committee takes account of guidelines issued by major investors and shareholder advisory bodies. It also seeks to maintain an active and productive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements.

The current policy was approved by shareholders at the 2014 Annual General Meeting and the full version of that policy can be found in the 2013 Annual Report and Accounts on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)). This year we have put together a new remuneration policy as it is three years since the current policy was approved. The new policy has been developed taking close account of the principles of the UK Corporate Governance Code in relation to remuneration.

It is intended that the new policy will be put before shareholders for approval by way of a binding vote at the Company's Annual General Meeting on 27 April 2017. If approved by shareholders, the policy will have effect immediately thereafter. Prior to that date, the Company's existing remuneration policy will continue to apply.

## Key changes under the updated policy

The Remuneration Committee is of the view that the policy approved by shareholders in 2014 continues to support the strategic ambitions of the Group and remains aligned with shareholders' interests; consequently, only minor changes have been proposed in respect of the updated remuneration policy.

### The key changes which have been made include:

- Reduction in the maximum award level under the Long Term Incentive Plan (LTIP) – in the policy approved in 2014, the overall maximum LTIP opportunity was 250% of salary. For the new policy, the maximum award will be capped at a reduced level of 200% of salary.
- Capped retirement benefits – under the previous policy, pension benefits were uncapped. In line with shareholder expectations, it is proposed that the new policy will cap retirement benefits at 20% of salary.
- Commitment with regards to LTIP metrics – under the previous policy, the Committee retained flexibility to amend performance metrics and targets for future awards. In normal circumstances there will now be a commitment that at least 50% of any ongoing future LTIP award will be subject to a shareholder return measure.

In addition to the above, the detailed terms have been updated to incorporate the rules of the share plans which are being renewed at the 2017 Annual General Meeting, as well as other minor changes intended to align with evolving market and best practice.

## Remuneration principles

The Group's success depends on the performance and commitment of its employees. KAZ Minerals' approach towards executive performance, reward and benefits supports and drives its strategy and business objectives and reinforces its values in the context of appropriate risk management. The Committee seeks to ensure that the Company's remuneration policies and practices:

- facilitate the recruitment, retention and motivation of high calibre executives with the appropriate skills to implement the Group's strategy and business objectives;
- provide a strong and demonstrable link between incentives and the Group's strategy and business objectives;
- set a performance-biased framework for remuneration which is consistent with the Group's scale and unique circumstances and which enables executive Directors and certain senior managers to share in the long-term success of the Group, without delivering excessive benefits or encouraging short-term measures or excessive risk taking; and
- are aligned to shareholder interests.

The strategy for executive Director remuneration is to provide a balanced package with a high proportion of total remuneration being awarded through performance-related elements to ensure a clear link between pay and performance.

## Remuneration policy table

The table opposite summarises the key aspects of the Company's remuneration policy for executive Directors.

	Salary	Benefits
<b>Purpose and link to strategy</b>	To attract and maintain high calibre executives taking account of market levels at the date of appointment and on subsequent review.	Provide market competitive benefits to help recruit and retain high calibre executives.
<b>Operation</b>	<p>Normally reviewed annually, with increases typically effective from 1 January.</p> <p>Any increases take account of:</p> <ul style="list-style-type: none"> <li>• Company and individual performance</li> <li>• Skill set and experience of the executive</li> <li>• External indicators such as inflation and market conditions</li> <li>• Remuneration levels of Group employees, particularly in the UK.</li> </ul> <p>Where no pension provision is provided an adjustment may be made to salary.</p>	<p>Provision of benefits such as:</p> <ul style="list-style-type: none"> <li>• Private medical insurance</li> <li>• Relocation assistance</li> <li>• Travel and related expenses</li> <li>• Retirement benefits</li> <li>• Life insurance.</li> </ul> <p>Additional benefits may be provided from time to time. The Committee will consider whether the payment of any additional benefits is appropriate and in line with market practice when determining whether and at what level they are paid.</p> <p>Executive Directors are also entitled to participate in any 'all-employee' share plans or benefit arrangements on the same basis as other employees.</p>
<b>Maximum</b>	<p>The current salaries for executive Directors are set out on page 96 of the Annual Report on Remuneration.</p> <p>Salary reviews take account of Company and individual performance.</p> <p>There is no prescribed maximum annual increase, however the Committee is guided by the general increase for the broader employee population, particularly in the UK.</p> <p>On occasion there may be a need for any increase to recognise, for example, development in role, change in responsibility and/or specific retention issues as well as the market context.</p> <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.</p>	<p>The cost of benefits is not pre-determined given that the costs of a benefit may change based on the individual's circumstances, therefore no overall monetary maximum has been set. The Committee will consider whether the payment of any additional benefits is appropriate and/or in line with market practice when determining whether and at what level they are paid.</p> <p>Executive Directors may be provided with retirement benefits (either via participation in a pension plan, cash in lieu, or economic equivalent) of up to 20% of salary per annum.</p> <p>For UK tax-advantaged share plans, the maximum participation level (for UK-based employees) is as set out by the relevant HMRC limits.</p>

## Remuneration report

	Annual Bonus Plan	Long Term Incentive Plan
<b>Purpose and link to strategy</b>	Incentivise the delivery of annual objectives consistent with the Group's strategy, without encouraging short-term measures or excessive risk-taking.	Incentivise long-term value creation and alignment with longer-term returns to shareholders.
<b>Operation</b>	<p>Not pensionable.</p> <p>Payments determined on the basis of:</p> <ul style="list-style-type: none"> <li>• Operational performance</li> <li>• Financial performance</li> <li>• Strategic developments.</li> </ul> <p>The Committee will determine the appropriate weightings of the performance metrics on an annual basis with targets set by reference to the financial and operating plans.</p> <p>Payments scaled back in the absence of an improvement in the Group's safety performance.</p> <p>The Committee may adjust the formulaic outcome based on the performance targets to reflect the underlying performance of the Company.</p> <p>Bonus starts to earn at threshold level (where 0% of salary is normally payable). For performance between the threshold and maximum hurdles, award levels are appropriately scaled.</p> <p>In order to facilitate share ownership, the Committee may determine that a portion of any bonus received will be deferred into shares for two years (or such other period as the Committee may determine). The Committee retains discretion to determine the level of bonus deferral required, mindful of an executive Director's shareholding.</p> <p>Malus and clawback applies under circumstances as set out on page 92.</p>	<p>Normally granted annually, awards under the LTIP are rights to receive nil-cost shares (or economic equivalent), subject to continued employment and performance metrics set by the Remuneration Committee at the time of grant, measured over a period of at least three years.</p> <p>At least 50% of any award will be based on performance metrics linked to targets based on shareholder returns. For 2017 (and awards granted in prior years), awards have been based on relative TSR performance measured against sector peers.</p> <p>Up to 30% vests at threshold, rising to 100% at stretch performance.</p> <p>Shares arising from an LTIP award must normally be held for a period of two years from the vesting date of the award.</p> <p>Malus and clawback applies under circumstances as set out on page 92.</p>
<b>Maximum</b>	<p>Maximum bonus potential of 200% of salary for the achievement of stretching performance objectives with a target bonus of 100% of salary.</p> <p>For 2017 the maximum bonus potential for the Chief Executive and Chief Financial Officer will be up to 150% of salary, with a target bonus of up to 75% of salary.</p>	<p>Maximum of 200% of salary per annum.</p> <p>For 2017 the award policy would be as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive – 150% of salary</li> <li>• Chief Financial Officer – 125% of salary</li> </ul> <p>The current intention is to maintain annual awards at the levels set out above during the term of the policy.</p>



### Detailed provisions and plan flexibility

The Committee will operate the annual bonus plan and LTIP according to the rules of each respective plan. Consistent with normal market practice and the Listing Rules, the plans include flexibility in a number of regards, such as the ability within the policy to adjust targets and/or set different measures, and to alter weightings for the annual bonus plan. Awards made under any of the Company's share plans may:

- have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate;
- incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests. This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- be settled in cash at the Committee's discretion; and
- be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

The Committee will consult with shareholders in the event of material application of discretion. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed either:

(i) before the 2014 Annual General Meeting (the date the Company's first shareholder-approved Directors' remuneration policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

### Choice of performance measures and approach to target setting

In determining the levels of executive reward, the Committee continues to place considerable emphasis on ensuring a strong and demonstrable link between actual remuneration received and the achievement of KAZ Minerals' strategic and business objectives. The Committee sets stretching performance objectives for executive Directors and certain senior managers. To achieve these objectives and deliver performance, requires outstanding business management and strategic execution.

The annual bonus plan performance targets are therefore based on a combination of financial, operational and strategic objectives which provide clear alignment to the Group's KPIs and strategic priorities. As safety is a key priority of the Group, awards are also subject to a safety override ensuring that payouts will be scaled back in the absence of improvement in the Group's safety performance.

The LTIP provides a focus on delivering superior returns to shareholders by providing rewards for longer-term shareholder return outperformance as measured by the Company's TSR against a comparator group of selected companies. The Committee continues to believe that TSR remains an appropriate performance target as it endorses consistency in the remuneration policy and provides a clear alignment of interests with shareholders. In addition, TSR ensures a degree of risk management as it, through the share price, reflects both underlying financial performance and the market's assessment of the quality and sustainability of the Company's earnings.

### Shareholding guidelines

All executive Directors are expected to hold shares equivalent in value to a minimum of 200% of their base salary within a five year period from their date of appointment.

Executive Directors are normally required (where permitted from a technical perspective) to hold shares arising from an LTIP award for a period of five years from the date of grant, with only those shares required to cover a tax liability on exercise of an LTIP award permitted to be sold.

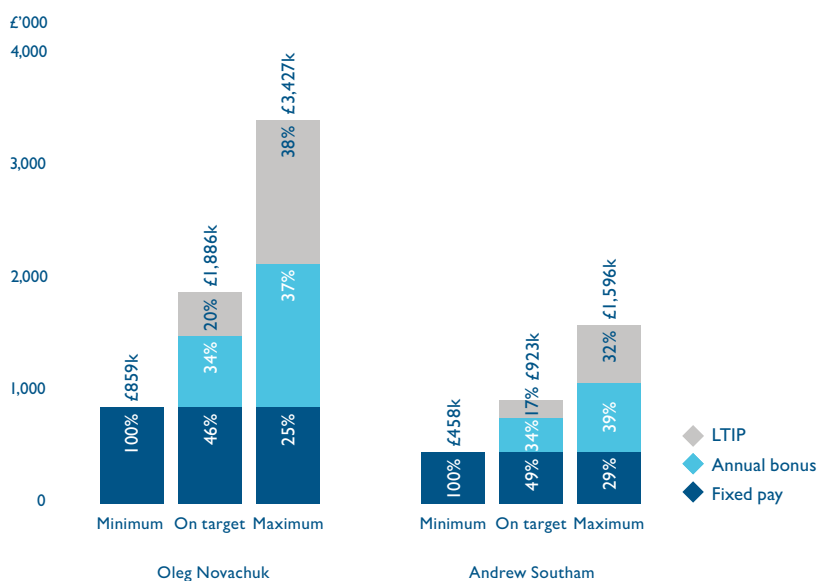
### Differences in remuneration policy for executive Directors compared to other employees

The Committee considers the pay structures across the wider Group workforce when setting the remuneration policy for executive Directors and, in particular, basic pay increases would normally be limited to those which employees in the UK have received. The key difference is that, overall, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees. In particular, long-term incentives are provided only to the most senior executives as they are reserved for those considered to have the greatest potential to influence overall levels of performance.

The most senior managers below Board level are eligible to receive a bonus. For some senior managers, a portion of the bonus is deferred and invested in the Company's shares and provided they remain in employment, the shares will be released after one, two or three years. Senior managers are also eligible to receive awards under the LTIP and the performance conditions for LTIP awards are the same as those which apply to executive Directors.

## Illustration of the application of remuneration policy

A key element of the Company's remuneration policy is to provide a significant part of potential reward through performance based incentive plans. Set out below is the reward mix for the executive Directors at minimum performance, on-target performance and maximum performance as proposed under the future policy table.



The basis of calculation and key assumptions used to complete the charts above is as follows:

<b>Minimum</b>	<p>Only fixed pay is payable, i.e. base salary, benefits and pension (where applicable).</p> <p>Base salary levels (on which other elements of the remuneration package are calculated) are based on those applying for 2017.</p> <p>Benefits are based on the estimated cash cost to the Company or the taxable value to the executive Director.</p> <p>Pension, applicable for Andrew Southam only, is based on his current contribution at 10% of base salary.</p>
<b>On-target</b>	Fixed pay (as above) plus 50% of the maximum annual bonus pay out plus an LTIP award with a face value of 150% for Oleg Novachuk and 125% for Andrew Southam (in line with the 2017 grant levels), vesting at 30% of maximum, being the threshold level of vesting.
<b>Maximum</b>	Fixed pay (as above) plus 100% of the maximum annual bonus payment plus an LTIP award with a face value of 150% for Oleg Novachuk and 125% for Andrew Southam (in line with the 2017 grant levels), vesting at 100%.

## Recruitment and appointment policy

Subject to the terms set out below, the remuneration package on appointment or promotion to a new executive Director role will be set on such terms as the Committee determines appropriate at the time.

The maximum level of variable pay for any new appointment (excluding any buy out) will be consistent with the points set out in the policy table. Where appropriate the Committee may tailor the nature of awards on appointment (e.g. the form or performance conditions) based on the commercial circumstances and strategic priorities at the relevant time.

When appointing a new executive Director, the Committee may offer certain cash or share-based elements for the purpose of buying out his or her arrangements forfeited on joining the Company. These payments would not exceed what is felt to be a fair estimate of values forfeited and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions.

In the case of an internal executive appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its existing terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment will continue.

The Committee has the flexibility to set the salary of a new hire at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the desired positioning, subject to individual performance.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate. In addition, the Committee may agree to provide tax equalisation for any new appointment. For the appointment of a new non-executive Chairman or non-executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

## Service contracts

Service contracts normally continue until the executive Director's agreed retirement date or such other date as the parties agree. The Company's policy is that executive Directors will be employed on a contract that can be terminated by the Company on giving no more than one year's notice, with the executive Director required to give up to six months' notice of termination. The Committee will, consistent with best practice and in the interests of the Company and its shareholders, seek to minimise termination payments.

A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain events, such as gross misconduct. The circumstances of the termination (including the individual's performance) are taken into account by the Committee when determining amounts

payable as a result of termination. The Committee's normal policy on termination is to make phased compensatory payments and to stop or reduce such payments to former executive Directors where they receive remuneration from other employment during the notice period (where this is consistent with local employment legislation and market practice).

Any share-based entitlements granted under the Company's share plans will be determined on the basis of the relevant plan rules. The default treatment is that any unvested awards lapse on cessation of employment. However, in certain prescribed circumstances (death, ill-health, injury, redundancy, disability, retirement, or other circumstances at the discretion of the Committee taking into account the individual's performance and the reasons for their departure), 'good leaver' status will be applied.

The extent to which good leavers' unvested LTIP awards vest will be determined by the Committee, taking into account the extent to which any relevant performance conditions have been satisfied and unless the Committee determines otherwise, the proportion of the performance period that has elapsed. If a Director leaves during the holding period of an LTIP award, his award will be retained, unless he is summarily dismissed, when it will lapse. Awards will normally vest (and be released from their holding periods) as if the Director had not left although the Committee may allow awards to vest and be released early if it considers it appropriate (e.g. on death).

Provision	Summary terms
<b>Notice period</b>	Up to 12 months
<b>Termination payment</b>	Base salary plus benefits. Payments will normally be paid monthly and be subject to mitigation (where this is consistent with local employment legislation and market practice).
<b>Remuneration entitlements</b>	A pro-rata bonus may also become payable for the period of active service along with, under the rules, vesting of outstanding share awards (in certain circumstances). In all cases performance targets will apply.

The Company reserves the right on termination to make a payment in lieu of notice which may be through phased payments which are paid in monthly instalments and subject to mitigation through a legal obligation on the part of the departing executive Director to seek new employment.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

### Takeovers

If there is a takeover or winding up of the Company, share-based awards will vest (and be released from any holding periods) early. The extent to which unvested LTIP awards vest, will be determined by the Committee, taking into account the extent to which any relevant performance conditions have been satisfied, any other performance factors the Committee considers relevant, and unless the Committee determines otherwise, the proportion of the performance period that has lapsed. If there is a demerger, special dividend, delisting or any other event that would in the Committee's opinion materially affect the Company's share price, awards may vest (and be released) on the same basis as for a takeover.

### Malus and clawback

Malus and clawback provisions operate in respect of the annual bonus, deferred bonus shares and LTIP awards. These enable the Company to reduce the size of unvested awards and to claw back the relevant value of the vested or released shares.

For awards granted from 2014 onwards, malus or clawback may be applied in the circumstances where there is/are:

- a material misstatement of the financial results of the Group;
- an error in the assessment of any performance condition applicable to an LTIP award or in the information or assumptions on which the award was granted, vests or was released;
- endemic problems in financial or operating reporting or a material regulatory breach by any member of the Group or business unit; and
- misconduct on the part of the participant, justifying his summary dismissal.

### Policy on external appointments

The Committee believes that the Company can benefit from executive Directors holding one approved non-executive directorship of another company, offering executive Directors the opportunity to broaden their experience and knowledge. Company policy is to allow executive Directors to retain fees paid from any such appointment. No executive Director currently holds a non-executive directorship of another company.

### Non-executive Chairman and other non-executive Directors

The non-executive Chairman and other non-executive Directors do not have service contracts, but each has a letter of appointment with the Company. Each letter of appointment provides for a one month notice period other than for the Chairman, who has a three month notice period. Non-executive Directors are normally appointed for two consecutive three year terms, with any additional term being subject to rigorous review and taking into account the need to progressively refresh the Board.

The fee for the non-executive Chairman is determined by the Committee (with the Chairman abstaining from any discussion or decision on his own fee), and reflects the commitment, demands and responsibility of the role. The fee is paid monthly in cash inclusive of all Committee roles and is not performance-related or pensionable. Limited benefits relating to travel, accommodation and meals for the non-executive Chairman and his spouse may also be payable in certain circumstances.

Fees for the non-executive Directors are determined by the Board as a whole, upon the recommendation of the executive Directors. The policy on non-executive Directors' fees is summarised in the table on the next page:



**Purpose and link to strategy**

To be sufficient to attract, motivate and retain world class talent necessary to contribute to a high-performing Board.

**Operation**

Fees are determined by the Board, within the limits set out in the Company's Articles of Association, with non-executive Directors abstaining from any discussion or decision on their fees.

The Board takes account of recognised best practice standards for such positions when determining the fee level and structure.

Fees are normally paid monthly in cash. Non-executive Directors do not participate in any of the Company's incentive arrangements or receive any pension provision.

The non-executive Directors receive a base fee, with additional fees payable for additional Board responsibilities such as chairing and being a member of the Company's key committees, or for the role of Senior Independent Director.

The fee levels are reviewed on a periodic basis, with reference to the time commitment and responsibilities of the role and market levels in companies of comparable size and complexity.

Limited benefits such as travel, accommodation and meals for non-executive Directors and their spouses and any associated tax may also be payable in certain circumstances.

**Fee levels**

Fee levels were reduced in 2013 and remain unchanged from the reduced levels set. Fees (per annum) from 1 January 2017 are:

- Non-executive Director base fee: £84,000
- Senior Independent Director: £12,000
- Chairs of the Audit and Group HSE Committees: £15,000
- Chair of the Operations Ramp Up Assurance Committee: £12,000
- Chair of the Remuneration Committee: £8,000
- Member of the Group HSE Committee: £9,000
- Member of the Audit Committee: £7,500
- Member of the Operations Ramp Up Assurance Committee: £6,000
- Member of the Remuneration Committee: £4,000

The above fee levels may be varied (either up or down) during the three year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases or decreases to fee levels for non-executive Directors in general and fee levels in companies of a similar size and complexity provided that the fees payable to non-executive Directors do not exceed the limit in the Articles of Association of the Company.

**Employee views**

The Company does not formally consult with employees on executive remuneration, nor were any remuneration comparison measurements used to compare overall pay levels with those of the Directors given the differences in pay practices in the UK and Kazakhstan. However, when setting the remuneration policy for executive Directors, the Committee takes into account the overall approach to reward for, and the pay and employment conditions of, other employees in the Group, particularly those in the UK.

**Shareholder engagement**

The Remuneration Committee actively seeks to engage with shareholders and values highly the contribution their views can make in the process of formulating remuneration policy decisions.

The Committee actively considers feedback received from shareholders prior to and following each Annual General Meeting. It also actively monitors guidance and directional themes emerging from institutional shareholder bodies on the subject of executive remuneration. This feedback, plus any emerging relevant guidance, is considered as part of the Company's annual review of remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the Annual Report on Remuneration.

# Annual Report on Remuneration

This report has been prepared in accordance with the Companies Act 2006 and Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in 2013). It also meets the relevant requirements of the Financial Conduct Authority's Listing Rules and describes how the Board has applied the principles of good governance as set out in the Code.

## Implementation of the new policy for 2017

The following section sets out how we intend to apply our remuneration policy in 2017. The structure remains broadly unchanged from the remuneration policy which was approved by shareholders in 2014.

### Salary

The base salary for Oleg Novachuk will not be increased from 2016 levels and will remain at £856,000 and the salary for Andrew Southam will be increased by 1% to £414,100. For context, no increases were made to executive Directors' base salaries in any of the financial years from 2012 to 2016.

### Pension and benefits

The Company does not provide pension benefits on behalf of Oleg Novachuk. The absence of any pension provision is taken into account when setting his base salary and other elements of remuneration. Andrew Southam is entitled to receive Company pension contributions and/or a cash allowance with a total value of up to 10% of base salary.

Benefits include health insurance and, where appropriate, relocation assistance in line with entitlements provided for executives in similar positions in comparable companies.

### Annual bonus

The maximum annual bonus opportunity for 2017 remains at 150% of salary for both Oleg Novachuk (following a reduction from 200% of salary in respect of 2014 and going forward) and Andrew Southam. The target bonus is set at 75% of salary for both Oleg Novachuk and Andrew Southam.

For 2017 the annual bonus plan structure is unchanged. A summary is provided in the table below:

Measure	Weighting
Operational/financial	
Gross EBITDA (excluding special items)	25%
Free Cash Flow	5%
Copper production	20%
Gross cash cost of copper	20%
Strategic developments	30%
Total <sup>1</sup>	100%

<sup>1</sup> Total will be scaled back in the event that the Committee considers that there has been insufficient improvement in safety over the prior year.

For each element, 0% is payable at threshold rising to 50% payable at target and 100% payable at stretch.

Specific targets will not be disclosed in advance as they would give a clear indication of the Group's business objectives which are commercially sensitive. Performance against specific targets will be disclosed when they cease to be commercially sensitive.

Andrew Southam is required to defer one third of his bonus earned, after payment of any income tax and national insurance due, into the Company's shares and to retain those shares for a minimum period of two years. Given his current substantial shareholding in the Company, the Committee does not consider it necessary to impose this requirement on Oleg Novachuk at this time.

The annual bonus plan is subject to malus and clawback provisions.

### Long-term incentives

LTIP award levels for 2017 will remain at 150% of salary for Oleg Novachuk and 125% of salary for Andrew Southam. This follows a reduction from 2015 levels of 200% of salary for Oleg Novachuk.

Both executive Directors are required to hold vested shares for a period of two years from the vesting date.

The number of shares that vest will continue to be dependent on KAZ Minerals' TSR performance compared to a comparator group of UK and international mining companies. If KAZ Minerals' TSR is ranked median or above, an award will vest as follows:

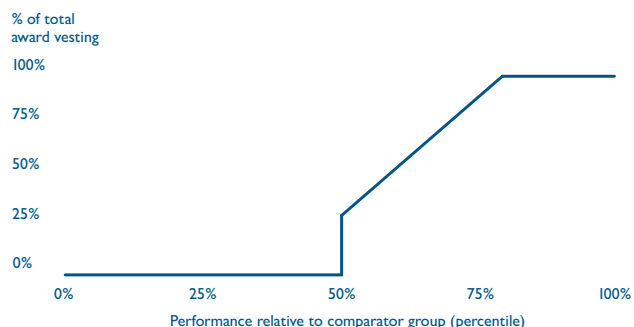
TSR ranking of KAZ Minerals	Vesting percentage
Upper quartile ranking	100%
Between median and upper quartile ranking	Straight-line vesting between 30% and 100% based on ranking plus interpolation between rankings
Median ranking	30%
Below median ranking	0%

Awards are split into two sub-awards each with three year vesting periods. This should help to mitigate the impact that the cyclical nature of the copper industry has on KAZ Minerals' share price.

For awards to be granted in 2017 the performance period for the sub-awards will be:

- sub-award 1: 1 January 2017 to 31 December 2019; and
- sub-award 2: 1 June 2017 to 31 May 2020.

### TSR Performance Vesting Schedule



The comparator group applicable for awards to be granted in 2017 will comprise:

Anglo American plc	Antofagasta plc
BHP Billiton plc	Boliden AB
First Quantum Minerals Ltd	Freeport-McMoran Copper & Gold Inc
Fresnillo plc	Glencore plc
KGHM Polska Miedz S.A.	Lundin Mining Corporation
Rio Tinto plc	Southern Copper Corporation
Teck Resources Ltd	Vedanta Resources plc
South 32 Limited	

In the event of one or more constituents undergoing a takeover, merger, dissolution, variation in capital or any other event that would materially affect the calculation of a ranking, the Committee shall determine how this should be reflected in the ranking calculation.

### Service contracts

Oleg Novachuk has a service contract dated 26 September 2005 which is terminable by the Company or by the executive Director on three months' notice and Andrew Southam has a service contract dated 18 May 2013, the date on which he became Chief Financial Officer, which is terminable by the Company on 12 months' notice or by the executive Director on six months' notice.

### Chairman and other non-executive Directors' remuneration

The non-executive Chairman's fee was set at £300,000 per annum on his appointment on 17 May 2013. The fee was, at his request, reduced to £275,000 per annum from 1 April 2014.

Non-executive Director fees were reviewed during 2016 and it was determined that fees would not be increased for 2017. The fee structure (per annum) from 1 January 2017 remains the same as 2016 except for the substitution of the Projects Assurance

Committee by the Operations Ramp Up Assurance Committee as follows:

- Non-executive Director base fee: £84,000
- Senior Independent Director: £12,000
- Chairs of the Audit and HSE Committees: £15,000
- Chair of the Operations Ramp Up Assurance Committee: £12,000
- Chair of the Remuneration Committee: £8,000
- Member of the HSE Committee: £9,000
- Member of the Audit Committee: £7,500
- Member of the Operations Ramp Up Assurance Committee: £6,000
- Member of the Remuneration Committee: £4,000

In addition to the fee of £84,000 he receives as a non-executive Director, Vladimir Kim receives an advisory fee of £370,000 per annum for assisting and supporting the Company in its dealings with the Government and regional authorities in Kazakhstan.

For the Chairman and each non-executive Director who served during 2016, the effective date of their current letter of appointment is shown in the table below:

Name	Letter of appointment
Lynda Armstrong	5 May 2016
Simon Heale <sup>1</sup>	5 May 2016
Vladimir Kim <sup>2</sup>	17 May 2016
Michael Lynch-Bell	27 February 2016
John MacKenzie	1 March 2015
Charles Watson	24 August 2014

<sup>1</sup> Prior to his appointment as Deputy Chairman and Chairman designate, Simon Heale had a letter of appointment dated 21 November 2006 in respect of his appointment as a non-executive Director on 1 January 2007, which terminated upon him becoming Chairman of the Company.

<sup>2</sup> Prior to his appointment as a non-executive Director, Vladimir Kim had a service agreement dated 26 September 2005 in respect of his appointment as an Executive Director on 1 October 2005, which terminated upon him becoming a non-executive Director.

## Directors' remuneration for 2016

### Executive Directors' remuneration

	Oleg Novachuk		Andrew Southam	
	2016 £000	2015 £000	2016 £000	2015 £000
Salary	856	856	410	410
Benefits <sup>1</sup>	3	3	2	3
Pension or cash in lieu	–	–	45 <sup>2</sup>	34
Sub-total – fixed remuneration	859	859	457	447
Annual performance bonus <sup>3</sup>	860	856	412	410
Long Term Incentive Plan <sup>4</sup>	819	–	245	–
Sub-total – variable remuneration	1,679	856	657	410
Other <sup>5</sup>	–	–	4	6
Total	2,538	1,715	1,118	863

- 1 Benefits for Oleg Novachuk and Andrew Southam relate to the provision of private medical insurance.
- 2 The Company pension contribution included £6,833.34 of sums that were due from November and December 2015 but which were not contributed until February 2016.
- 3 Annual performance bonus relates to bonus amounts paid in 2017 and 2016 in respect of the prior year performance period.
- 4 Relates to part of the 2014 award which is based on performance to 31 December 2016 and is forecasted to vest during 2017. Value of shares based on average share price in final quarter of 2016 (326p).
- 5 Includes the value of the 20% discount offered in relation to the annual invitation under the UK Sharesave Plan and the market value of the matching shares received following the monthly purchase of partnership shares under the UK Share Incentive Plan.

## Executive Directors' annual bonus awards (performance period 1 January 2016 to 31 December 2016)

For 2016 as for 2017 the annual bonus plan sought to incentivise the achievement of: improvement in safety performance through further improved processes; improvement in operational performance through volume and cost of production measures; financial profitability through EBITDA (excluding special items) and Free Cash Flow; and strategic developments.

The structure of the bonus was weighted such that 70% was based on operational and financial measures and 30% based on strategic developments. Strategic developments included mechanical completion of the sulphide concentrator and clay plant within the approved budget at Bozshakol and the sulphide concentrator achieving initial production by the end of 2016 at Aktogay as well as the Aktogay project being completed within the approved budget.

The maximum bonus potential for Oleg Novachuk and Andrew Southam for 2016 was 150% of salary.

The Committee assessed each discrete element of the annual bonus plan separately as part of an overall balanced scorecard of measures. Within each element the Committee considered a number of sub-elements and formed a rounded assessment of the performance of executive Directors at the end of the year.

Awards were also subject to a safety override enabling them to be scaled back to reflect the Group's safety performance. Metrics included improvements in the Fatality Frequency Rate and progress against safety improvement initiatives.

## Performance assessment for 2016

2016 was an exceptional year for KAZ Minerals as the Bozshakol project commenced output and together with Aktogay oxide, delivered significant production growth. Aktogay sulphide construction progressed to plan at reduced budget and the Group is now well positioned to deliver its medium-term strategic objective of 300 kt of copper in 2018 with the majority of production from low cost, open pit mines.



Performance measure	Weighting (as a % of total bonus)	Year-end outcome	Performance v.targets range			Pay out (% max)
			Threshold	Target	Maximum	
Gross EBITDA	25%	\$492m	\$374m	\$416m	\$458m	25%
Free Cash Flow	5%	(\$60m)	(\$113m)	(\$103m)	(\$93m)	5%
Own copper concentrate production <sup>1</sup>	20%	150 kt	171 kt	190 kt	200 kt	0%
Gross cash cost of copper <sup>2</sup>	20%	161 USc/lb	193USc/lb	176USc/lb	167USc/lb	20%
Strategic developments	30%	Targets linked to strategic priorities including development at Bozshakol and Aktogay				30%
Safety scale-back						-13%
Total bonus (as % of maximum)	100%					67%

<sup>1</sup> Own copper in concentrate production excludes production from the Aktogay sulphide plant but includes the copper in concentrate equivalent of copper cathode produced by the Aktogay oxide SX/EW plant.

<sup>2</sup> The gross cash cost of Aktogay oxide has been excluded from the performance measure as the Aktogay operating cash costs would be impacted by operational readiness costs relating to the sulphide operation.

When assessing management against the specific targets set for 2016, Gross EBITDA was higher than forecast due to management's success in achieving low cost production growth. Group Free Cash Flow was well ahead of forecast. The outcome of the production element is reflective of the very challenging timetable that was set for the ramp up of the Bozshakol concentrator in 2016. Gross cash cost of copper was below budget demonstrating the success of management's cost control measures.

In respect of the strategic objectives for 2016, during the year, the Bozshakol project was declared commercial and Aktogay commenced commissioning of its main sulphide concentrator in December 2016, at a reduced capital budget. There was also important progress in respect of liquidity in 2016, with KAZ Minerals securing a new \$300 million facility with the DBK and an additional \$50 million in commitments under the PXF facility. As the strategic objectives set for the year were delivered in full, performance under this element warranted a pay out of 30%.

The Committee's assessment shown in the table above includes the result of a scale back of 13% to reflect safety performance. While progress on safety continues to be made, the Committee was particularly mindful of fatalities during the year. The overall level of performance achieved resulted in annual bonus awards of 67% of maximum potential for both Oleg Novachuk and Andrew Southam. The Committee is satisfied that this level of bonus is appropriate given the performance achieved across the scorecard and the safety assessment.

### Executive Directors' Long Term Incentive Plan awards (performance period 1 June 2013 to 31 May 2016 and 1 January 2014 to 31 December 2016)

Awards granted to executive Directors under the LTIP were subject to a relative TSR performance condition, with TSR measured against a bespoke group of global mining companies over two different performance periods consistent with the approach and vesting schedule described on pages 94 and 95.

For the sub-awards under the 2013 LTIP awards measured over the period 1 June 2013 to 31 May 2016, the Company was ranked below median ranking. These sub-awards have therefore lapsed in full having failed to reach the threshold median positioning. As reported in the 2015 Annual Report and Accounts, the first sub-award under the 2013 LTIP awards which was measured over the period from 1 January 2013 to 31 December 2015 also lapsed in full for the same reason.

For the 2014 LTIP award, half of the award is subject to TSR performance measured over the period from 1 January 2014 to 31 December 2016. The Company was positioned between the median and upper quartile during this period, which would result in vesting of 44% (out of 50%) of the total award. The second half of the award will be based on TSR performance measured over the period from 1 June 2014 to 31 May 2017. The 2014 award will be eligible for vesting during 2017, after the assessment of performance over both periods.

## Remuneration report

### LTIP awards granted in the year

During 2016, awards were made to Oleg Novachuk and Andrew Southam at 150% of salary and 125% of salary respectively.

Executive Director	Type of award	Basis of award granted	Number of shares awarded <sup>1</sup>	Face value of award £000	% of face value which vests at threshold
Oleg Novachuk	Nil-cost option	150% of salary	786,042	1,284	30
Andrew Southam	Nil-cost option	125% of salary	313,743	512	30

<sup>1</sup> The face value of the awards was based on a five day average share price commencing immediately after the announcement of the Group's preliminary results of 163.35 pence which was used to determine grant levels. The awards were made on 4 March 2016 when the share price was 182 pence.

The awards were made subject to a TSR performance condition which requires the Company to deliver a median ranking (30% vests) rising on a straight-line basis to an upper quartile TSR ranking (100% vests) relative to a peer group of mining companies. The awards were split into two sub-awards measured over two separate performance periods, i.e. 1 January 2016 to 31 December 2018 and 1 June 2016 to 31 May 2019. The averaging period for calculating TSR will be three months leading up to the start and the end of the performance period of each sub-award.

### Executive Directors' interests in the Long Term Incentive Plan

Executive Director	Date of award	Date of vesting	Number of shares conditionally awarded as at 1 January 2016	Market price at date of grant	Awards made during the year	Awards vested during the year	Awards lapsed during the year	Number of shares under award as at 31 December 2016 <sup>1</sup>
Oleg Novachuk	5 April 2013	1 June 2016	455,998	365p	—	—	455,998	—
	7 March 2014	1 June 2017	570,933	293p	—	—	—	570,933
	6 March 2015	1 June 2018	526,272	226p	—	—	—	526,272
	4 March 2016	1 June 2019	—	163p	786,042	—	—	786,042
Andrew Southam	5 April 2013	1 June 2016	85,333	365p	—	—	85,333	—
	2 September 2013	2 September 2016	62,597	306p	—	—	62,597	—
	7 March 2014	1 June 2017	170,913	293p	—	—	—	170,913
	6 March 2015	1 June 2018	210,058	226p	—	—	—	210,058
	4 March 2016	1 June 2019	—	163p	313,743	—	—	313,743

<sup>1</sup> The table shows the maximum number of shares that could be released if awards were to vest in full. Participants do not receive dividends on unvested shares.

### Payments for loss of office

No payments for loss of office and no payments to any former Directors were made during the year ended 31 December 2016.

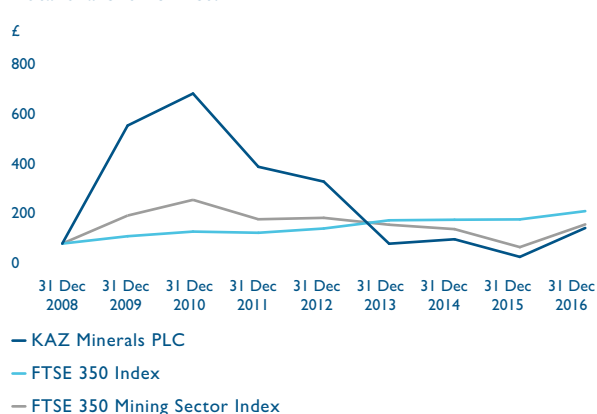
### External appointments

No executive Director held a non-executive directorship of another company during 2016.

### Performance graph

The following graph shows the value, at 31 December 2016, of £100 invested in KAZ Minerals PLC shares on 31 December 2008 compared with an equivalent investment in the FTSE 350 Index and FTSE 350 Mining Sector Index. These indices were chosen as they are broad-based indices and are widely recognised performance comparisons for large UK mining companies.

### Total Shareholder Return



Source: Thomson Reuters DataStream

During 2016, the TSR of the Company's shares was 249%. This compares to the total return on the FTSE 350 Mining Sector Index of 106%.

### Remuneration of highest paid executive Director

The table below shows the total remuneration figure for the highest paid executive Director (i.e. the Executive Chairman for 2008 to 2012 and the Chief Executive for 2013 to 2016). The total remuneration figure includes the annual bonus and LTIP awards which vested based on performance in those years. The annual bonus and LTIP percentages show the pay out for each year as a percentage of the maximum.

	Total remuneration (£000)	Annual bonus (%)	LTIP vesting (%)
2008 <sup>1</sup>	1,423	29	—
2009 <sup>1</sup>	1,801	71	—
2010 <sup>1</sup>	1,736	58	—
2011 <sup>1</sup>	1,768	50	—
2012 <sup>1</sup>	1,676	40	—
2013 <sup>2</sup>	1,458	35	—
2014 <sup>2</sup>	1,587	57	—
2015 <sup>2</sup>	1,715	67	—
2016 <sup>2</sup>	<b>2,538</b>	<b>67</b>	<b>44%<sup>3</sup></b>

<sup>1</sup> Relates to the remuneration of Vladimir Kim, Executive Chairman at that time.

<sup>2</sup> Relates to the remuneration of Oleg Novachuk, Chief Executive.

<sup>3</sup> This represents the expected part vesting for the LTIP award granted in 2014.

### Remuneration of other senior managers

The base salaries of those senior managers immediately below the level of the Board who were employed in the Group as at 31 December 2016 were as shown in the table below:

Salary range	Number of senior managers
£700,000 – £799,000	1
£600,000 – £699,999	—
£500,000 – £599,999	—
£400,000 – £499,999	—
£300,000 – £399,999	—
£200,000 – £299,999	2
£100,000 – £199,999	2
£0 – £99,999	1

### Percentage change in remuneration levels

The following table shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for the average UK employee. The Committee has chosen this comparator as it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees and variations in wage practices in Kazakhstan. For the benefits and bonus per employee, this is based on those employees eligible to participate in such schemes.

Chief Executive	% change
Salary	Nil
Benefits	Nil
Bonus <sup>1</sup>	0.5
<b>Average per employee</b>	
Salary	6
Benefits	(11)
Bonus <sup>1</sup>	(13)

<sup>1</sup> Bonus relates to percentage change in bonus amounts paid in 2015 and 2016 in respect of the prior year performance period.

### Relative importance of spend on pay

The table below shows the movement in the total cost of remuneration in the Group, the total cost of remuneration for Directors as well as dividend distributions to shareholders and capital expenditure.

Spend on pay	2016 £ million	2015 £ million	% change
Overall expenditure on Group employees' pay	<b>134</b>	124	8
Overall expenditure on pay for executive Directors	<b>3</b>	3	0
Distribution by way of dividends	—	—	N/A
Capital expenditure	<b>240</b>	738	(67)

Capital expenditure is shown in the table above as Directors have a choice of whether to distribute profits and cash flows by way of dividend, or reinvest these in the asset base to maintain or improve the Group's operations.

## Non-executive Directors' fees and expenses

Fees and expenses paid to non-executive Directors during the year ended 31 December 2016 are set out below:

Directors	2016			2015		
	Fees £000	Expenses £000	Total £000	Fees £000	Expenses £000	Total £000
Lynda Armstrong	107	2	109 <sup>1</sup>	106	2	108
Simon Heale	275	—	275	275	—	275
Vladimir Kim	454	—	454 <sup>2</sup>	454	—	454
Michael Lynch-Bell	115	—	115	114	—	114
John MacKenzie <sup>3</sup>	107	—	107	83	—	83
Charles Watson	123	—	123	123	—	123

<sup>1</sup> Includes £2,000 (2015: £2,000) in travel and accommodation expenses for travel to attend Board and committee meetings.

<sup>2</sup> In 2015 and 2016, in addition to his fee of £84,000 as a non-executive Director, Vladimir Kim received an advisory fee of £370,000 for assisting and supporting the Company in its dealings with the Government and regional authorities in Kazakhstan.

<sup>3</sup> Appointed to the Board on 1 March 2015.

## Directors' interests in ordinary shares<sup>1</sup>

The beneficial interests of the Directors and their closely associated persons (CAPs) who held office at 31 December 2016 in the Company's ordinary shares as at that date and 1 January 2016 are shown in the table below:

Directors	Ordinary shares beneficially owned at 1 January 2016 or date of appointment <sup>2</sup>	Ordinary shares beneficially owned at 31 December 2016 <sup>3</sup>	Outstanding LTIP awards	Outstanding DSBP awards	Outstanding UK Sharesave Plan options	% of shareholding guideline as at 31 December 2016 <sup>4</sup>
Lynda Armstrong	4,000	4,000	—	—	—	—
Simon Heale	228,655	239,000	—	—	—	—
Vladimir Kim	149,306,795	149,306,795	—	—	—	—
Michael Lynch-Bell	7,000	7,000	—	—	—	—
John MacKenzie	5,000	5,000	—	—	—	—
Oleg Novachuk <sup>5</sup>	34,923,423	34,923,423	1,883,247	—	—	exceeds guideline
Andrew Southam	137,459	187,925 <sup>6</sup>	694,714	143,870	13,432	82
Charles Watson	3,624	3,624	—	—	—	—

<sup>1</sup> No changes in Directors' interests occurred in the period 1 January 2017 to 23 February 2017, save for the purchase of 37 partnership shares by Andrew Southam under the UK Share Incentive Plan.

<sup>2</sup> These numbers are calculated using connected persons under the definition in the Companies Act 2006 before the introduction of the Market Abuse Regulations (MAR).

<sup>3</sup> These numbers are calculated using CAPs under the MAR.

<sup>4</sup> The closing market price of the Company's shares at 31 December 2016 was 357.2p and the range for the year was 87.75p to 420p.

<sup>5</sup> The ordinary shares beneficially owned by Oleg Novachuk have been pledged to support loans. The voting rights in respect of the pledged ordinary shares have been retained by him.

<sup>6</sup> Of the ordinary shares beneficially owned by Andrew Southam at 31 December 2016, 3,396 ordinary shares relate to the partnership shares purchased and held in trust under the UK Share Incentive Plan.

Executive Directors are required to build up a holding of ordinary shares in the Company worth at least 200% of salary within a five year period from their date of appointment. As set out in the table above, Oleg Novachuk has met and exceeded the shareholding requirement and Andrew Southam has currently met 82% of the shareholding requirement, although he has five years from his date of appointment on 1 November 2014 to achieve the shareholding requirement.



## Dilution of share capital

The Company's share-based incentive plans currently operate mostly with market purchase shares that are held in an Employee Benefit Trust, therefore there is very little dilution of existing shareholders on the vesting of awards. During the year the Company has however used 14,774 shares held in treasury to satisfy vesting under the Sharesave scheme and such shares count towards the limits on the number of new shares which may be issued under the rules of the Sharesave scheme pursuant to institutional shareholder guidelines.

## Employee Benefit Trust (EBT)

The EBT was established to acquire ordinary shares in the Company, by subscription or purchase, from funds provided by the Group to satisfy rights to shares arising on the exercise of awards under the Group's share-based incentive plans. The trustees of the EBT have informed the Company that their intention is to abstain from voting in respect of the KAZ Minerals shares held in the trust. As at 31 December 2016, 243,156 shares were held by the EBT to hedge outstanding awards of 3,984,371 shares. 250,000 shares were purchased by the EBT during the year at a price of 187.7p per share. In total the trust holds 6% of outstanding awards. The maximum number of shares held by the EBT during the year was 300,140 at 24 August 2016 which was 0.07% of the issued share capital carrying voting rights. The total number of KAZ Minerals shares disposed of by the EBT in the year was 218,249 constituting 0.04% of the issued share capital carrying voting rights.

## All-employee share schemes

In 2016 Executive Directors were eligible to participate in the Company's UK and International Sharesave and Share Incentive Plans on the same terms as other eligible employees. Due to low participation rates, from January 2017 the Share Incentive Plan was closed for further contributions and no further Sharesave invitations will be issued.

## Legacy award – 2015 bonus

The 2015 annual bonus for the executive Directors was determined by a number of operational performance, financial performance and strategic development targets with the first two elements comprising 50% of the maximum bonus potential and strategic developments comprising 50%.

The operational and financial performance elements were determined on the basis of performance against budget of ore output (target 18 Mt, actual 15 Mt), own copper cathode equivalent production for East Region and Bozymchak (assessed against market guidance of 80-85 kt for the year, actual 81 kt), the net cash cost of copper in the East Region and Bozymchak (target 164 US\$/lb, actual 109 US\$/lb) and maintenance spend per tonne for East Region and Bozymchak (budgeted \$1,105/t, actual \$827/t), all of which were positive variances. Other financial performance targets for 2015 included EBITDA (excluding special items) (target \$218 million, actual \$202 million), and Free Cash Flow (target \$146 million, actual \$145 million). The strategic targets

for 2015, all of which were largely achieved, were at Bozshakol, the substantial completion of the sulphide plant in 2015 with the commencement of commissioning during the year and at Aktogay, the commencement of commissioning of the SX/EW plant in 2015 and progress at the Aktogay sulphide plant such that it remained on budget and on track for commissioning in 2016.

As stated last year, the performance resulted in an outcome of 67% of the maximum award (i.e. 100% of salary) for both Oleg Novachuk and Andrew Southam.

## Composition of the Remuneration Committee

The members of the Committee during 2016 were Lynda Armstrong, Simon Heale, Michael Lynch-Bell and Charles Watson. On 7 May 2015 Lynda Armstrong took over as chair of the Committee. The Chief Executive is normally invited to attend meetings to provide information and advice to the Committee to enable it to make informed decisions. Individuals are however, specifically excluded from any matter concerning their own remuneration. Representatives of Deloitte, the Committee's retained adviser, also attend meetings by invitation. The Company Secretary attends meetings as secretary to the Committee.

## Attendance at Remuneration Committee meetings

The Committee met three times in 2016, with each member attending as follows:

Member	Committee member since	Attendance at scheduled meetings during 2016
Lynda Armstrong	21 October 2013	3/3
Simon Heale	1 January 2007	3/3
Michael Lynch-Bell	7 May 2015	2/3 <sup>1</sup>
Charles Watson	17 May 2013	3/3

<sup>1</sup> The meeting was missed due to a conflict in schedules. Comments were provided to the Chair in advance of the meetings.

After each meeting, the chair of the Committee presented a report on its activities to the full Board.

## Role of the Remuneration Committee

The Committee is primarily responsible for determining and recommending to the Board the framework for executive remuneration and for determining, on behalf of the Board, the remuneration of executive Directors and certain senior managers.

The Committee's full terms of reference are available to view on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)). The Committee's principal responsibilities are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures executive Directors and certain senior managers are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contribution towards the success of the Company;

- ensuring that the remuneration policy is appropriate and consistent with effective risk management;
- within the agreed framework, setting and determining the total individual remuneration arrangements for executive Directors and certain senior managers, giving due regard to individual and Company performance, and remuneration trends across the Group;
- approving the design of, and determining the targets for, any performance-related plans and the total annual payments made under such plans to executive Directors and certain senior managers;
- determining any share incentive plan performance targets; and
- determining the terms of employment and remuneration of each executive Director and certain senior managers, including recruitment and termination arrangements.

### Committee activities in 2016

At its meetings during the year the Committee amongst other matters:

- reviewed current trends in remuneration practice and institutional investors' current guidelines on executive compensation;
- reviewed the Company's remuneration policy and prepared a new policy for approval for shareholders at the 2017 Annual General Meeting;
- reviewed and approved rules for the new LTIP and DSBP;
- set, reviewed and agreed to approve individual remuneration arrangements for executive Directors and certain senior managers;
- assessed the level of achievement against objectives under the annual bonus plan and LTIP;
- considered and approved plan design, performance measures and targets to be used under the annual bonus plan and LTIP for 2017;
- reviewed and approved the Directors' Remuneration Report; and
- reviewed the Committee's performance and its terms of reference.

### Priorities for 2017

For the coming year, it is anticipated that the Committee will focus on the following areas:

- ensuring that remuneration arrangements continue to promote the long-term success of the Company, with a focus on maintaining the link between performance and reward, whilst maintaining a prudent approach to cost and the risk to the business;
- ensuring compliance with regulatory requirements;
- reviewing and assessing the ongoing appropriateness of current executive remuneration plan design and targets;
- ongoing training of Committee members; and
- reviewing the competitiveness and effectiveness of the external adviser.

### Management of risk in remuneration arrangements

The Committee periodically commissions a detailed assessment of the risk environment surrounding the Company's current remuneration arrangements for executive Directors and certain senior managers. The latest assessment determined that whilst remuneration arrangements were broadly compatible with the Company's risk policies and systems, a number of areas could be considered further, including a cap on pension contributions to Directors and on annual ongoing award levels under the LTIP and accordingly, the appropriate changes have been made to the 2017 remuneration policy. Overall, the Committee remains satisfied that the remuneration policy is aligned with the long-term needs of the business and that incentive quantum, structure and objectives do not encourage short-term measures or excessive risk-taking.

The Committee draws upon the relevant experience and knowledge of its members to ensure that it benefits from the positions they hold at the Company. These include the fact that Simon Heale is Chairman of the Company, Michael Lynch-Bell is chair of the Audit Committee and Charles Watson is chair of the Health, Safety and Environment Committee and was chair of the Projects Assurance Committee until 31 December 2016. The Chief Executive, who attends Committee meetings by invitation, also provides a link to the Executive Committee. The leveraging of such experience and knowledge enables the Committee to have an oversight of risk factors that may be relevant to remuneration arrangements and target setting specifically.

### External adviser

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. During 2016, the Committee received advice on executive compensation, performance-related pay schemes and equity-based incentive schemes from New Bridge Street, a trading name of Aon Hewitt Limited (part of the Aon plc group). The Committee also received advice from Deloitte who were appointed the Company's new remuneration adviser from May 2016 following a competitive tender process. Deloitte also provides advice to the Company on tax compliance and advisory services and HR consulting. The total fees paid to New Bridge Street in respect of its services during the year were £28,000. Deloitte's fees for 2016 were £48,500. New Bridge Street and Deloitte are signatories to the Remuneration Consultants Group Code of Conduct. The Committee regularly reviews the external adviser relationship and is comfortable that Deloitte's advice remains objective and independent.

### Statement of shareholder voting

At the Annual General Meeting held on 5 May 2016, the advisory vote on the Annual Report on Remuneration received the following votes from shareholders:

#### Annual Report on Remuneration 2015

Votes for	291,781,797	98.48%
Votes against	4,516,002	1.52%
Total votes cast	296,297,799	100.00%
Votes withheld	18,591	

#### Remuneration Policy 2014

The previous remuneration policy was approved by shareholders at the 2014 Annual General Meeting and received the following votes from shareholders:

Votes for	251,099,185	99.33%
Votes against	1,685,791	0.67%
Total votes cast	252,784,976	100.00%
Votes withheld	1,477,064	

### Audit requirements

The Group's external auditors, KPMG LLP, have audited the information contained in the tables headed Executive Directors' remuneration, LTIP awards granted in the year, Executive Directors' interests in the Long Term Incentive Plan, Remuneration of other senior managers, non-executive Directors' fees and expenses and Directors' interests in ordinary shares.

On behalf of the Board

### Lynda Armstrong OBE

Chair, Remuneration Committee

# Other statutory information

## UK Listing Rule disclosures

Information required to be disclosed pursuant to Listing Rule 9.8.4R may be found on the following pages:

Information	Annual report section	Page
Business review	Strategic report	4-43
Dividend	Strategic report	13 and 38
Future developments of the Company	Strategic report	13, 16, 20 and 21
Corporate responsibility	Strategic report	46-53
Greenhouse gas emission	Strategic report	49
Employment policies	Corporate responsibility	51-52
Principal risks	Strategic report	56-57 and 59-62
Directors in office during the year	Director's report	66-67 and 71
Details of long-term incentive schemes	Remuneration report	96-103
Directors' indemnity and insurance	Other statutory information	104
Structure of share capital, voting rights and major shareholders	Other statutory information	104-105
Policy on derivatives and financial instruments	Other statutory information	105
Information required by LR 9.2.2AR (2)(a) – Relationship agreements	Other statutory information	105
Statement on political donations	Other statutory information	105
Rules governing appointments of Directors	Other statutory information	106
Rules governing changes to the Articles of Association	Other statutory information	106
Disclosure of information to auditor	Other statutory information	106-107
Statement of capitalised interest	Notes to the Consolidated Financial Statements	129
Contract for the provision of services by major shareholder	Notes to the Consolidated Financial Statements	150

## Directors

In accordance with the UK Corporate Governance Code, all Directors will retire and submit themselves for re-election at the Company's forthcoming Annual General Meeting. Details of Directors' contracts or letters of appointment are included in the Directors' Remuneration Report.

During the year, no Director had any interest in any shares or debentures in the Company's subsidiaries, or any material interests in any contract with the Company or a subsidiary being a contract of significance in relation to the Company's business.

## Directors' indemnity and insurance

KAZ Minerals maintains liability insurance for its Directors and Officers. The Company has also granted indemnities to each of the Directors and the Company Secretary to the extent permitted by law.

## Annual General Meeting

The Company's Annual General Meeting will be held at 12.15pm on Thursday 27 April 2017 at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ, United Kingdom. Details of the meeting venue and the resolutions to be proposed, together with

explanatory notes, are set out in a separate Notice of Annual General Meeting which accompanies this Annual Report and Accounts. A summary of the business carried out at the Annual General Meeting will be published on the Company's website ([www.kazminerals.com](http://www.kazminerals.com)).

## Share capital

As at 31 December 2016, the Company's issued share capital was 458,379,033 ordinary shares of 20 pence each, credited as fully paid. As at the date of this Directors' Report, the Company holds 11,677,052 ordinary shares in treasury and the issued share capital of the Company which carries voting rights of one vote per share comprises 446,701,981 ordinary shares (excluding treasury shares). Further details of the Company's issued share capital are shown in note 23 commencing on page 136.

The Company's shares are listed on the London, Hong Kong and Kazakhstan Stock Exchanges.

A list of the Group's subsidiary undertakings and their principal activities is given in note 36(m) commencing on page 163.



## Purchase of own shares

The Company was authorised by shareholders at the 2016 Annual General Meeting to purchase its own shares on the market within certain limits. In the period since the 2016 Annual General Meeting, the Company has not purchased any shares under this authority. The Board will seek shareholders' approval to renew the authority to make market purchases of the Company's shares at the forthcoming Annual General Meeting.

## Major shareholdings

As at 22 February 2017, the Company had been notified under Rule 5.1.2 of the FCA's Disclosure Guidance and Transparency Rules of the following interests in its total voting rights of 3% or more:

Name of holder	Number of ordinary shares of 20 pence each held	Percentage of total voting rights held as at 22 February 2017
Cuprum Holding Limited <sup>1</sup>	135,944,325	30.43
Lafonda Holding Pte Limited	31,293,781	7.01
Lynchwood Nominees Limited	29,969,088	6.71
SIX SIS AG – ZURICH		
Harper Finance Limited <sup>2</sup>	29,706,901	6.65
Majedie Asset Management Limited <sup>3</sup>	22,381,504	5.01

<sup>1</sup> Vladimir Kim holds a 100% interest in Cuprum Holding Limited.

<sup>2</sup> Oleg Novachuk holds a 100% interest in Harper Finance Limited.

<sup>3</sup> Funds under management of Majedie Asset Management Limited.

## Relationship agreements

As required by Listing Rule 9.2.2AR(2)(a), on 23 July 2014, the Company entered into: (i) an amended and restated relationship agreement (originally entered into on 26 September 2005) with Cuprum Holding Limited, Perry Partners S.A. and Vladimir Kim; and (ii) a relationship agreement with Stansbury International Limited and Eduard Ogay.

In accordance with Listing Rule 6.1.4DR, each relationship agreement establishes that all transactions between the Company and the controlling shareholder are undertaken on an arm's length basis and on normal commercial terms, that neither the controlling shareholder nor its associates will cause the Company to breach or circumvent the Listing Rules or prevent the Company from complying with its obligations under the Listing Rules and that neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Under the relationship agreement with Vladimir Kim, inter alia, there must be a majority of independent Directors on the Board and on all its standing committees, and no material transaction may be entered into without approval of the independent Directors.

Each relationship agreement will continue as long as the ordinary shares are listed on the premium segment of the Official List and traded on the London Stock Exchange and will terminate should the relevant shareholder cease to be a 'controlling shareholder' as defined in the Listing Rules.

The Company has complied with the independence provisions included in the relationship agreements and, so far as the Company is aware, such provisions have been complied with during the period under review by the controlling shareholders and their associates.

Although Eduard Ogay stepped down from the Board with effect from 31 October 2014, as he continues to be considered to be acting in concert with Vladimir Kim for the purposes of the Code, details of the relationship agreement between the Company, Stansbury International Limited and Eduard Ogay have been included.

## Political donations

The Group did not give any money for political purposes in the United Kingdom nor did it make any donations to EU political organisations or incur any EU political expenditure during the year.

## Policy on derivatives and financial instruments

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign exchange, counterparty credit, commodity price, liquidity and interest rate risks can be found in note 31 commencing on page 141.

## Legal proceedings

Neither the Company nor any of its subsidiaries is a defendant in any proceedings which the Directors believe will have a material effect on either the Company's financial position or profitability. Commitments and contingencies are disclosed in note 32 commencing on page 149.

## Significant agreements – change of control

The following significant agreements contain certain termination and other rights for the counterparties upon a change of control of the Company.

Each of a \$1.34 billion facility agreement and a RMB 1.0 billion facility agreement dated 16 December 2011, between KAZ Minerals Aktogay Finance Limited as borrower and China Development Bank Corporation as lender, contains terms which give the lender the right to cancel any of the commitments provided to KAZ Minerals Aktogay Finance Limited and declare all outstanding loans, together with accrued interest, and all other amounts accrued and outstanding immediately due and payable on 30 business days' notice if the Company ceases to hold (directly or indirectly) more than 50 % of the issued share capital of KAZ Minerals Aktogay Finance Limited and/or certain other named subsidiaries.

The terms of a pre-export finance debt facility dated 20 December 2012, as amended and restated on 29 October 2014, between KAZ Minerals Finance PLC and a syndicate of banks, provide that if any person (excluding Vladimir Kim and Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the facility. If no alternative basis has been agreed during such period then the

lenders may cancel the commitments of the lenders to lend the facility and declare all outstanding amounts due and payable.

Each of a \$1,844 million facility agreement and a \$148.5 million facility agreement dated 29 December 2014, between KAZ Minerals Finance PLC as borrower and China Development Bank Corporation as lender, contain terms which give the lender the right to cancel any of the commitments provided to KAZ Minerals Finance PLC and declare all outstanding loans, together with accrued interest, and all other amounts accrued and outstanding immediately due and payable on 30 business days' notice if the Company ceases to hold (directly or indirectly) more than 50% of the issued share capital of KAZ Minerals Finance PLC and/or certain other named subsidiaries.

The terms of a borrowing base debt facility dated 14 August 2015, between KAZ Minerals Finance PLC as borrower and Caterpillar Financial Services (UK) Limited as original lender, provide that if any person (excluding Vladimir Kim and Oleg Novachuk) or group of people acting in concert secures control of the Company: (i) a lender under the facility shall not be obliged to fund a loan; and (ii) if a body of lenders representing more than two-thirds of the amount of the facility so require, the parties shall enter into negotiations for a period of not more than 30 days with a view to agreeing alternative terms for continuing the facility. If no alternative basis has been agreed during such period then the lender(s) may cancel the commitments of the lender(s) to lend the facility and declare all outstanding amounts due and payable.

The terms of a credit facility agreement dated 14 December 2016, between KAZ Minerals Aktogay LLC as borrower and DBK as lender, provide that if there is a change in the ownership structure of the borrower in an amount of 10% or more of the participating interests of the borrower, to a person or persons other than a member of the Group and without the prior written consent of the lender, this would trigger an event of default.

#### Going concern

The Directors, having made appropriate enquiries, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future (which is for this purpose a period of at least 12 months from the date of approval of these financial statements). Accordingly, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

#### Articles of Association

The following description summarises certain provisions of the Company's Articles of Association and applicable English law concerning companies (the Companies Act 2006). This summary is qualified in its entirety by reference to the Company's Articles of Association and the Companies Act 2006. The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

#### Rights attaching to shares

The rights attaching to the ordinary shares of the Company are defined in the Company's Articles of Association.

#### Voting rights

Members may attend any general meeting of the Company. On a show of hands every member (or his/her representative) who is present in person or by proxy has one vote on each resolution and on a poll every member (or his/her representative) who is present in person or by proxy shall have one vote on each resolution for each share of which he/she is the holder.

In accordance with the Companies Act 2006 which allows multiple proxies appointed by a single member to vote on a show of hands, all substantive resolutions at general meetings will normally be put to a poll vote. Employees who participate in the Company's Share Incentive Plans (SIP) and hold shares in the SIP trusts, provide directions to the trustee to vote on their behalf by way of a form of direction.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

#### Dividend rights

Shareholders may by ordinary resolution declare dividends but the amount of the dividend may not exceed the amount recommended by the Board.

#### Transfer of shares

There are no restrictions on the transfer of shares other than certain restrictions as set out in the Company's Articles of Association. Transfers of uncertificated shares must be carried out using CREST and the Board can refuse a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares.

#### Powers of the Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Company's Articles of Association.

#### Appointment and retirement of Directors

The Board shall have the power at any time to appoint any person who is willing to act as a Director; so long as the total number of Directors shall not exceed the maximum number prescribed in the Articles of Association. Any Director so appointed shall retire at the next Annual General Meeting following such appointment. Each Director shall retire at the Annual General Meeting held in the third calendar year following the year in which he/she was elected or last re-elected by the Company. A Director who retires at an Annual General Meeting (whether by rotation or otherwise) may, if willing to act, be reappointed.

#### Audit information

The Directors who held office at the date of approval of this Directors' Report confirm that so far as they each are aware, there is no relevant audit information (being information needed by the

auditors in connection with preparing their audit report), of which the Company's auditors are unaware, and each Director has taken all steps that he ought to have reasonably taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

Having reviewed the independence, objectivity and performance of the auditors, the Audit Committee has recommended to the Board that the existing auditors, KPMG, be re-appointed. Ordinary resolutions re-appointing them as auditors and authorising the Directors to set their remuneration will be proposed at the 2017 Annual General Meeting.

### Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the Group and parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities, and have adopted a control framework for application across the Group.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

Each Director confirms to the best of his/her knowledge that:

- the Group and parent company accounts, prepared in accordance with IFRS as adopted by the EU, 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;
- 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; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Strategic Report comprising pages 4 to 62 and the Directors' Report comprising pages 64 to 107, and including the sections of the Annual Report and Accounts referred to in these pages, have been approved by the Board and signed on its behalf by:

**Susanna Freeman**  
Company Secretary

22 February 2017

Registered Office  
6<sup>th</sup> Floor, Cardinal Place  
100 Victoria Street  
London  
SW1E 5JL

Registered in England and Wales No. 05180783

# FINANCIAL STATEMENTS

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAZ MINERALS PLC ONLY

## Opinions and conclusions arising from our audit

### 1 Our opinion on the financial statements is unmodified

We have audited the financial statements of KAZ Minerals PLC for the year ended 31 December 2016 set out on pages 112 to 165. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2 Our assessment of risks of material misstatement

We summarise below the risks of material misstatement that had the greatest effect on our audit (in decreasing order of audit significance), our key audit procedures to address those risks and our findings from those procedures in order that the Parent Company's members as a body may better understand the process by which we arrived at our audit opinion. Our findings are based on procedures undertaken in the context of, and solely for the purpose of our statutory audit opinion on the financial statements as a whole and consequently are incidental to that opinion, and we do not express discrete opinions on separate elements of the financial statements.

In our 2015 audit report, the risk of impairment of Bozymchak and the risk of impairment of the East Region and the growth project assets (Aktogay and Bozshakol) were also included in this section of our audit report. In the current year, an assessment of the potential indicators of impairment performed in the period after 31 December 2016, taking account of commodity price expectations and current and forecast operational performance, indicated that the risk of impairment had significantly reduced and so these risks are no longer considered to be sufficiently significant to be included in this report.

#### Disclosure related to going concern

#### Risk vs 2015: ←→

Refer to page 116 (note 2(a) – Basis of preparation – Going concern), page 41 – Financial review and page 79 – Audit Committee Report.

- **The risk** The Group manages its short-term liquidity requirements through short and medium term credit facilities. A key facility is the pre-export credit facility which was fully drawn at 31 December 2016 at \$281 million (the "PXF facility"). The amount available under the PXF facility is being repaid on a monthly basis with the final payment due on 31 December 2018.

Repayments under the Group's other borrowing facilities and the deferred payments to China Non Ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd ("NFC") result in significantly higher outlays from the beginning of 2018.

The Group plans to renegotiate the terms of the PXF facility in the first half of 2017 with a view to amending the financial covenants to ensure a breach is not triggered when next tested and to increase available liquidity by extending the facility amount and the duration of the facility. If this is achieved, the Group expects to have enough liquidity for the foreseeable future.

However, this may not be possible and the Group's short-term cash flow projections are dependent on revenue from the Aktogay and Bozshakol projects whose production has not yet fully ramped up and on commodity prices which have historically been volatile. If the PXF facility is not refinanced successfully, there is the potential for a liquidity shortfall during the period considered for going concern to 31 March 2018 in the event of either a sustained fall in commodity prices or a sustained fall in commodity prices coupled with lower than forecast production at Aktogay and Bozshakol and thereafter in any case.

Note 2(a) to the financial statements explains how the Directors have formed a judgement that use of the going concern basis is appropriate in preparing the financial statements. The Directors have considered the Group's forecast cash flows over the period ending 31 March 2018 and the principal repayments due under the Group's debt facilities in the remainder of 2018, and have concluded that the range of possible outcomes they have considered in arriving at this judgement does not give rise to a material uncertainty regarding the Group's ability to continue as a going concern.

In particular, the Directors have concluded that it is highly likely that the Group will be able to successfully restructure the PXF facility prior to 30 June 2017 or that, in the event that this cannot be achieved in that timeframe, (1) the PXF facility and the Caterpillar Financial Services (UK) Limited revolving credit facility (together \$321 million fully drawn at 31 December 2016) will remain available until their final maturities of 31 December 2018 and 14 August 2019, respectively because the Group will be able to secure waivers or amendments of covenants on those facilities which otherwise are forecast to be breached when tested at 30 June 2017 ("the Covenants") and (2) the Group will be able to raise additional finance and/or restructure its existing debt if necessary.

The combination of (1) the dependence on revenue from the Aktogay and Bozshakol projects which have not yet fully ramped up and commodity prices which have historically been volatile, (2) the proposed refinancing of the PXF facility, and (3) the significant step up in repayments under the Group's other borrowing facilities and the deferred payments to NFC from the beginning of 2018, constitute conditions that, in certain circumstances, may cast significant doubt on the Group's ability to continue as a going concern.

As this assessment involves consideration of future events, many of which are outside the control of the Group, there is a risk that the Directors' judgement is inappropriate and that the uncertainty should have been assessed as material, in which case additional disclosures would have been required.

The significance of this risk remains consistent with the prior year. On the one hand, commodity prices have recovered and the outlook is more positive, the risks relating to the commissioning and ramp up of production from Bozshakol and Aktogay have reduced substantially and over the last few months the Group has increased available liquidity by some \$350 million. On the other hand, the demands on liquidity from debt repayments due in 2018 are now closer.

- **Our response** Our procedures included challenging the appropriateness of key assumptions in the cash flow projections (including commodity prices, production costs, inflation, foreign exchange, production volumes and timing focusing on Aktogay and Bozshakol, committed and other planned capital expenditure and the availability of borrowing facilities) based on historical production information and internal mine plans, together with market and other externally available information. We tested the mathematical accuracy of the projections. We evaluated the sensitivity of the projected available cash by considering downside scenarios against a set of reasonably plausible changes to the key assumptions. We recalculated the forecast covenant calculations.

We read the terms of the Group's borrowing facilities focusing on terms that could result in those facilities not being available throughout the period to 31 March 2018. With regard to the plans to renegotiate the PXF facility (or in the event this cannot be achieved the plans to secure waivers or amendments of the Covenants to prevent a probable breach when tested at 30 June 2017), we examined evidence of discussions held to date with the providers of the relevant facilities and assessed the likelihood that a renegotiation could be achieved and spoke directly to certain lenders.

We considered the appropriateness of the relevant disclosures.

Finally to supplement this and to ensure that the matter had received appropriate attention from the Board, we sought and received written representations from the Directors that their plans to restructure the PXF facility and, if necessary, to raise additional finance and/or restructure the Group's existing debt, as described in note 2(a) to the financial statements, are considered by them to be feasible.

- **Our findings** We found that the Group's going concern assessment and the key assumptions used therein to be balanced. We found the Directors' plans for restructuring the PXF facility, or in the absence of this to obtain covenant waivers or amendments and, if to raise additional finance and/or restructure the Group's existing debt to be feasible and therefore that their judgements that there is no material uncertainty to be disclosed to be balanced and that the disclosure in note 2(a) to the financial statements to be proportionate.

## Bribery and corruption

## Risk vs 2015: ↔

- **The risk** The Group's business involves mining activities in Kazakhstan and Kyrgyzstan. Transparency International's Corruption Perceptions Index 2016 and our own experience indicates that corruption risks remain significant in both countries. In addition, companies in the mining sector are inherently at higher risk from bribery and corruption due to the significant level of government regulation and their procurement profile. This could result in material losses to the Group and material improper payments not being appropriately disclosed.
- **Our response** Our procedures included considering the Group's policies and procedures to prevent the risk of corruption. We

evaluated the tone set by the Board and by senior management. We evaluated the Group's policies and procedures and tested controls over the selection of suppliers and the process over acknowledging acceptance of services/equipment provided by suppliers. We tested samples of payments made to suppliers and considered any transactions which we considered unusual in the context of the Group's operations. We considered dealings with government agencies with a view to identifying indicators of corruption and reviewed social payments. When we identified individual transactions that at face value appeared as though they might have been outside the normal course of business, we enquired about these transactions from senior operational management and executive management. We corroborated such explanations given by investigating the nature of the transactions and evaluating the business rationale for the transactions, taking account of our experience in the mining and other industries in Kazakhstan and Kyrgyzstan. We discussed our findings with senior operational management, the Audit Committee and the Board. We also enquired as to whether they had knowledge of any improper payments. We involved our own forensic accounting specialists to assist with the design of our procedures and we remained alert to indications of the existence of bribery and corruption throughout our performance of other procedures.

- **Our findings** We did not identify any instances of improper payments or indications of bribery or corruption (2015 audit finding: none identified).

In reaching our audit opinion on the financial statements we took into account the findings that we describe above and those for other, lower risk areas. Overall the findings from across the whole audit are that the financial statements have been prepared on the basis of appropriate accounting policies, reflect balanced judgements and estimates (2015 audit finding: balanced), and provide proportionate disclosure (2015 audit finding: proportionate). Having assessed these findings, evaluated uncorrected misstatements in the context of materiality and considered the qualitative aspects of the financial statements as a whole, we have not modified our opinion on the financial statements.

## 3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at \$25 million – (2015: \$25 million), determined with reference to a benchmark of Group total assets (of which it represents 0.5% (2015: 0.6%)).

We reported to the Audit Committee, if any: (i) corrected identified misstatements exceeding \$25 million (2015: \$25 million), (ii) uncorrected identified misstatements exceeding \$1.25 million (2015: \$1.25 million) for income statement items; and (iii) other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 35 – (2015: 35) reporting components, we subjected 13 (2015: 13) to audits for group reporting purposes. These audits covered 96% (2015: 99%) of Group revenue, 99% (2015: 99%) of Group profit before tax and 97% (2015: 97%) of Group total assets.

The remaining 4% (2015: 1%) of Group revenue, 1% (2015: 1%) of Group profit before tax and 3% (2015: 3%) of Group total assets is represented by 22 reporting components, none of which individually represented more than 2% of any of Group revenue,

Group profit before tax or Group assets. For these remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from \$0.4 million to \$20 million (2015: \$0.6 million to \$20 million), having regard to the mix of size and risk profile of the Group across the components. The work on 4 of the 13 components (2015: 4 of the 13 components) was performed by component auditors and the rest by the Group team.

The Group team visited all 4 (2015: 4) Kazakhstan and Kyrgyzstan component teams on two (2015: three) separate occasions. Telephone conference meetings were also held with these component auditors frequently throughout the year. At these visits and meetings, meetings with key management personnel in Kazakhstan were attended, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

#### **4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

#### **5 We have nothing to report on the disclosures of principal risks**

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' viability statement on page 58, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2019; or
- the disclosures on pages 59 to 62 and in note 2(a) of the financial statements on page 116 concerning the use of the going concern basis of accounting.

#### **6 We have nothing to report in respect of the matters on which we are required to report by exception**

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 106 and page 58 respectively, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 68 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

#### **Scope and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 107, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014b](http://www.kpmg.com/uk/auditscopeukco2014b), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

#### **Jimmy Daboo (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, E14 5GL

22 February 2017

\$ million (unless otherwise stated)	Notes	2016	2015
Revenues	4(b)	766	665
Cost of sales	5(a)	(413)	(429)
<b>Gross profit</b>		<b>353</b>	236
Selling and distribution expenses	5(b)	(32)	(27)
Administrative expenses	5(c)	(104)	(126)
Net other operating income	5(d)	4	22
Impairment losses	6	(3)	(15)
<b>Operating profit</b>		<b>218</b>	90
Analysed as:			
Operating profit (excluding special items)		221	88
Special items	7	(3)	2
Finance income	11	116	192
Finance costs	11	(114)	(270)
<b>Profit before taxation</b>		<b>220</b>	12
Income tax expense	12(a)	(43)	(24)
<b>Profit/(loss) for the year</b>		<b>177</b>	(12)
Analysed as:			
Underlying Profit	13	180	(10)
Special items	7	(3)	(2)
Attributable to:			
Equity holders of the Company		177	(12)
Non-controlling interests		–	–
		<b>177</b>	(12)
<b>Other comprehensive income/(expense) for the year after tax:</b>			
Items that may be reclassified subsequently to the income statement:			
Exchange differences on retranslation of foreign operations	2(g)	35	(1,773)
<b>Other comprehensive income/(expense) for the year</b>		<b>35</b>	(1,773)
<b>Total comprehensive income/(expense) for the year</b>		<b>212</b>	(1,785)
Attributable to:			
Equity holders of the Company		212	(1,785)
Non-controlling interests		–	–
		<b>212</b>	(1,785)
<b>Earnings per share attributable to equity shareholders of the Company</b>			
Ordinary EPS – basic and diluted (\$)	13(a)	0.40	(0.03)
EPS based on Underlying Profit/(Loss) – basic and diluted (\$)	13(b)	0.40	(0.02)



\$ million	Notes	2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	14	8	7
Property, plant and equipment	15	2,670	2,019
Mining assets	16	422	374
Other non-current assets	17	364	256
Deferred tax asset	12(b)	72	59
		<b>3,536</b>	2,715
<b>Current assets</b>			
Inventories	18	247	113
Prepayments and other current assets	19	54	55
Income taxes receivable		7	1
Trade and other receivables	20	105	23
Investments	21	–	400
Cash and cash equivalents	22	1,108	851
		<b>1,521</b>	1,443
<b>Total assets</b>		<b>5,057</b>	4,158
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	23(a)	171	171
Share premium		2,650	2,650
Capital reserves	23(c)	(2,037)	(2,072)
Retained earnings		(251)	(430)
<b>Attributable to equity holders of the Company</b>		<b>533</b>	319
Non-controlling interests		3	3
<b>Total equity</b>		<b>536</b>	322
<b>Non-current liabilities</b>			
Borrowings	24	3,446	3,201
Deferred tax liability	12(b)	56	31
Employee benefits	25	15	13
Provisions	26	57	9
Other non-current liabilities	27	292	9
		<b>3,866</b>	3,263
<b>Current liabilities</b>			
Trade and other payables	28	309	254
Borrowings	24	331	303
Income taxes payable		11	12
Employee benefits	25	2	2
Other current liabilities	27	2	2
		<b>655</b>	573
<b>Total liabilities</b>		<b>4,521</b>	3,836
<b>Total equity and liabilities</b>		<b>5,057</b>	4,158

These financial statements were approved by the Board of Directors on 22 February 2017.

Signed on behalf of the Board of Directors

**Oleg Novachuk**  
Chief Executive Officer

**Andrew Southam**  
Chief Financial Officer

\$ million	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Cash flow from operations before interest and income taxes	29	120	5
Interest paid		(179)	(147)
Income taxes paid		(39)	(40)
<b>Net cash flows used in operating activities</b>		<b>(98)</b>	<b>(182)</b>
<b>Cash flows from investing activities</b>			
Interest received		9	7
Proceeds from disposal of property, plant and equipment and mining assets		1	7
Purchase of intangible assets		(3)	(4)
Purchase of property, plant and equipment		(269)	(1,026)
Investments in mining assets, including licences		(52)	(96)
Licence payments for subsoil contracts	27	(2)	(1)
Acquisition of non-current investments		(1)	(1)
Movement in short-term bank deposits	30	400	–
<b>Net cash flows from/(used in) investing activities</b>		<b>83</b>	<b>(1,114)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		594	590
Repayment of borrowings		(321)	(181)
<b>Net cash flows from financing activities</b>	30	<b>273</b>	<b>409</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	30	<b>258</b>	<b>(887)</b>
Cash and cash equivalents at the beginning of the year		851	1,730
Effect of exchange rate changes on cash and cash equivalents	30	(1)	8
<b>Cash and cash equivalents at the end of the year</b>	22	<b>1,108</b>	<b>851</b>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
Year ended 31 December 2016

\$ million	Notes	Attributable to equity holders of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserves <sup>1</sup>	Retained earnings	Total		
At 1 January 2015		171	2,650	(299)	(421)	2,101	3	2,104
Loss for the year		—	—	—	(12)	(12)	—	(12)
Exchange differences on retranslation of foreign operations	2(g)	—	—	(1,773)	—	(1,773)	—	(1,773)
Total comprehensive expense for the year		—	—	(1,773)	(12)	(1,785)	—	(1,785)
Share-based payments		—	—	—	3	3	—	3
<b>At 31 December 2015</b>		171	2,650	(2,072)	(430)	319	3	322
Profit for the year		—	—	—	177	177	—	177
Exchange differences on retranslation of foreign operations	2(g)	—	—	35	—	35	—	35
Total comprehensive income for the year		—	—	35	177	212	—	212
Share-based payments		—	—	—	2	2	—	2
<b>At 31 December 2016</b>		171	2,650	(2,037)	(251)	533	3	536

<sup>1</sup> Refer to note 23(c) for an analysis of 'Capital reserves'.

## 1. Corporate information

KAZ Minerals PLC (the 'Company') is a public limited company incorporated in England and Wales. The Company's registered office 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 below.

The Group operates in the natural resources industry through five divisions, the principal activities of which during 2016 were:

Operating division	Principal activity	Primary country of operations
East Region	Mining and processing of copper and other metals	Kazakhstan
Bozymchak	Mining and processing of copper and gold	Kyrgyzstan
Bozshakol	Mining and processing of copper and other metals	Kazakhstan
Aktogay	Mining and processing of copper and other metals	Kazakhstan
Mining Projects	Development of metal deposits and processing facilities	Kazakhstan

The legal names of the constituent companies within the above divisions are shown in note 36(m).

## 2. Basis of preparation

The financial statements set out on pages 112 to 165 have been prepared using accounting policies consistent with IFRSs as adopted by the EU. The Company has taken the exemption under section 408 of the Companies Act 2006 and has not published the Company's income statement and related notes.

### (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 on pages 25 to 31. The financial performance and position of the Group, its cash flows and available debt facilities are described in the Financial review on pages 34 to 43. In addition, note 31 commencing on page 141 sets out 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, foreign exchange and counterparties.

The Group manages liquidity risk by maintaining adequate committed borrowing facilities and working capital funds. 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.

At 31 December 2016, the Group's net debt was \$2,669 million with total debt of \$3,777 million and gross liquid funds of \$1,108 million.

At 31 December 2016, the gross debt consisted of:

- \$1,703 million of the CDB-Bozshakol and Bozymchak facilities, which amortises over the period to 2025;
- \$1,456 million of the \$1.5 billion loan facility with CDB, which amortises over the period to 2029, with repayments increasing from March 2018;
- \$297 million of the DBK facility, which amortises during the period from June 2018 to June 2025;
- \$281 million for the amended PXF facility, whose principal repayments amortise over a three-year period until final maturity in December 2018; and
- \$40 million under the revolving credit facility provided by Caterpillar Financial Services (UK) Limited ('CAT'), repayable in 2018/19.

The Group's PXF and CAT facilities are subject to financial covenants, including a net debt to EBITDA covenant which is next due to be tested at 30 June 2017. The covenant is forecast to be breached if tested at that time.

These consolidated financial statements have been prepared on a going concern basis. In making the assessment that the Group is a going concern, the Board has considered the Group's cash flow forecasts for the period to 31 March 2018, the outlook for commodity prices, the assumed ramp up of production from Bozshakol and Aktogay and the principal repayments due under the Group's debt facilities and the deferred capital payments to NFC in the remainder of 2018.

As previously announced, the Group intends to enter discussions with the banks to achieve a refinancing of the PXF facility in the first half of 2017 with a view to amending the financial covenants to ensure a breach is not triggered and to increase available liquidity by extending the facility amount and the duration of the facility. Based on discussions with lenders, the Board is confident that the banks will view such a refinancing favourably provided the Group's debt service obligations continue to be maintained, which forecasts indicate will be the case. This conclusion is further supported by the short-term nature of the anticipated covenant breach and the high quality of the Group's assets, in particular, the Bozshakol and Aktogay mines which have long operational lives and provide large scale output at first quartile cash costs. The waiver obtained to the 31 December 2016 covenant testing and the additional \$50 million in commitments made available and drawn in December 2016 are further evidence of the support of the Group by its banks.

The Board is therefore confident that a refinancing of the PXF is achievable on terms that are satisfactory to the Group which would provide adequate liquidity throughout the going concern period to 31 March 2018, even in the event of a sustained reduction in commodity prices and a reasonably possible delay in the expected ramp up at Bozshakol and Aktogay (and should allow the Group to make the principal repayments due under its debt facilities and the deferred capital payments to NFC in the remainder of 2018).

In the unlikely event that the Group is not successful in increasing the available liquidity through a refinancing of the PXF as expected, the Board is confident that an amendment or waiver to the financial covenants would be achieved such that the PXF facility continues to be available until its final maturity at the end of 2018. This conclusion is supported by discussions with lenders and the approval obtained in respect of the waiver of the December 2016 covenant testing.



Under the Group's base case assumptions such a scenario would result in the Group having adequate liquidity throughout the going concern period to 31 March 2018. However, in the event of a sustained fall in commodity prices or a sustained fall in commodity prices coupled with lower than expected production from the ramp up of Bozshakol and Aktogay, other mitigating actions would be required to secure liquidity over the going concern period, with a relatively modest additional liquidity requirement in the first quarter of 2018.

In addition, in such a severe downside scenario, a moderate further amount of liquidity would be required to allow the Group to make the principal repayments due under its debt facilities in the remainder of 2018.

The Board believes that the additional liquidity which might be required in the foreseeable future in the event of reasonably possible downside scenarios occurring could be achieved through a combination of new sources of finance and/or a refinance of existing debt facilities and deferral of uncommitted capital costs. Accordingly, the Board is satisfied that it is appropriate to adopt the going concern basis of accounting in the preparation of these 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 where otherwise indicated.

#### **(c) Basis of consolidation**

The consolidated financial statements set out the Group's financial position as at 31 December 2016 and the Group's financial performance for the year ended 31 December 2016.

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to direct those activities of an enterprise that most significantly affect the returns the Group earns from its involvement with the enterprise. 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 intragroup 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.

Refer to note 36(m) for a list of all the Company's subsidiaries.

#### **(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.

#### **(e) Adoption of new standards and interpretations**

The following accounting standards, amendments and interpretations, which had no significant impact on these financial statements, became effective in the current reporting period as adopted by the European Union through the European Financial Reporting Advisory Group ('EFRAG'):

- Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal (Amendments to IFRS 5)
- Financial Instruments, Disclosures (Amendments to IFRS 7)
- Applying the exemption for consolidation of subsidiaries that meet the definition of an 'investment entity' (Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates')
- Defined Benefit Plans, Employee Contributions (Amendments to IAS 19)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Clarification of materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies (Amendments to IAS 1: Presentation of Financial Statements, Disclosure Initiatives)

## 2. Basis of preparation continued

### (f) New standards and interpretations not yet adopted

The key new standards, interpretations and amendments, as issued by the IASB are expected to be adopted by the Group once they are effective for application in the EU based on current legislative requirements in the United Kingdom.

- IFRS 9 '*Financial Instruments*': the IASB effective date is 1 January 2018 and the amendments were endorsed by the EU in November 2016. Based on the nature of the Group's financial assets and financial liabilities, the adoption of the standard is not expected to have a material impact on the recognition and measurement of the Group's financial assets and liabilities nor on the financial position or performance of the Group.
- IFRS 15 '*Revenue from Contracts with Customers*': the standard was issued in 2014 followed by '*Clarifications to IFRS Revenue from Contracts with Customers*' in April 2016, both with IASB effective dates of 1 January 2018. The standard was endorsed by the EU in September 2016 with the April 2016 clarifications yet to be endorsed by the EU. The Group has reviewed its current major contracts to consider the impact of the standard and the clarifications issued in 2016. Certain sales contracts require the Group to incur the cost of delivery to an identified location even though control of the material has passed to the customer and the sale recognised. The new standard considers the delivery of the sales arrangements for which control has passed to the customer, as a separate performance obligation for which revenue relating to the delivery should be separately recognised. This separation may result in the revenue assigned to this delivery performance obligation being recognised in the subsequent reporting period. This change is not expected to have a material impact on the Group's reported revenue compared to the current accounting methodology. The new standard also provides greater guidance on the accounting for provisionally priced contracts which applies to most of the Group's sales arrangements. The new guidance is not expected to have a material impact on reported revenue other than additional disclosure requirements which will be included in the Group's 2018 financial statements.
- IFRS 16 '*Leases*': the standard was issued in January 2016 with an IASB effective date of 1 January 2019 and is yet to be endorsed by the EU. The standard changes how operating leases will be recognised, measured, and disclosed by lessees. The Group will be assessing the full impact of IFRS 16 on its financial position and reporting of performance to determine the impact thereof. Under these new requirements, property leases currently classified as operating, where material, may be recognised on the balance sheet. The new standard does not apply to leases for the exploration or use of natural resources.
- IAS 7 '*Statement of Cash Flows*': amendments, as part of the IASB's disclosure initiative, issued in January 2016 and effective from 2017 have yet to be endorsed by the EU. The amendment requires further disclosure relating to liabilities used in financing activities. Given the current nature of the Group's financing liabilities, the additional disclosures are not expected to be significant as the requirements are largely disclosed as part of the changes in the Group's net debt.
- IAS 12 '*Income Taxes*': amendments issued in January 2016 and effective from 2017, are yet to be endorsed by the EU. The amendment provides further clarification on recognising deferred tax assets on unrealised losses. The standard is not expected to have a significant impact on the Group's consolidated financial statements.
- IFRS 2 '*Share-Based Payments*': amendments issued in June 2016 and effective from 2018, is yet to be endorsed by the EU. The amendments provide clarification on the classification and measurement of share-based payments. The standard is not expected to have a significant impact on the Group's consolidated financial statements.
- IFRS 4 '*Insurance Contracts*': amendments issued in September 2016 and effective from 2018, are yet to be endorsed by the EU. The amendments provide entities that issue insurance contracts within the scope of IFRS 4, with two options when applying IFRS 9 in conjunction with IFRS 4. This standard is not expected to have an impact on the Group's consolidated financial statements.
- IFRS 14 '*Regulatory Deferral accounts*': issued in January 2014 and effective from 1 January 2016, is not expected to be endorsed by the EU until a final statement is issued. This standard is focused on rate regulated industries and does not apply to the Group.
- IFRIC 22 '*Foreign currency transactions and advance considerations*': issued in December 2016 and effective from 1 January 2018, is yet to be endorsed by the EU. The interpretation clarified the accounting for the receipt or payment of advance consideration in a foreign currency and is not expected to have a significant impact on the Group's consolidated financial statements.
- IAS 40 '*Investment Property*': amendment issued in December 2016 and effective from 1 January 2018, is yet to be endorsed by the EU. The amendment provided clarity relating to the transfers to or from investment property and is not expected to impact the Group's consolidated financial statements.
- Improvements to IFRSs: There are a number of amendments to certain standards following the 2014-2016 annual improvements project which have not yet been endorsed by the EU. These changes are not expected to have an impact on the Group's consolidated financial statements.

The Company has not early adopted any new standards or interpretations.

### (g) Devaluation of the tenge

In 2016, the appreciation of the tenge resulted in non-cash foreign exchange gain of \$35 million due to the translation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

In 2015, the National Bank of Kazakhstan announced that the tenge would no longer be subject to management within a stated range. Following the announcement, the tenge ended 2015 at 339.47 tenge per US dollar which resulted in the recognition of exchange gains and losses through the income statement, arising mostly on US dollar denominated monetary assets and liabilities held by the Group's Kazakhstan based subsidiaries whose functional currency is the tenge. These exchange gains and losses were not recognised as special items as following the free float of the currency, tenge exchange movements are no longer considered one-off in nature.

The fall in value of the tenge in 2015 resulted in a non-cash foreign exchange loss of \$1,773 million recognised within equity, primarily due to the translation on consolidation of the Group's Kazakhstan based subsidiaries whose functional currency is the tenge.

#### (h) Comparative information

Where a change in the presentation format of the consolidated financial statements has been made during the year, comparative figures have been restated accordingly. Figures may have been restated to conform with the current basis of understanding.

### 3. Significant accounting judgements and key sources of estimation uncertainty

In the course of preparing these financial statements, the Directors make necessary judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Judgements are based on the Directors' best knowledge of the relevant facts and circumstances having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements.

Estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions applied are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgements and the key assumptions and sources of estimation uncertainty concerning the future which the Directors believe are likely to have the most significant effect on the amounts recognised in the consolidated financial statements.

#### Achievement of commercial production

Once a concentrator reaches the operating level intended by management and regarded to be 'commercial', capitalisation of development costs including borrowing costs ceases and the depreciation of capitalised costs begins with the revenues and operational costs being recorded in the income statement and not capitalised to the balance sheet. Significant judgement is required to determine when the Group's assets achieve commercial production, including completion of a reasonable period of commissioning; consistent achievement of operational results at a pre-determined level of expected capacity and indications exist that this level will continue; mineral recoveries are at or approaching expected levels; and the transfer of the project from the development personnel to operational personnel.

For the Bozshakol operation, commercial production of the sulphide plant was judged to have been achieved on 27 October 2016. In making this assessment, the Directors considered the performance of the plant of at least 60% of its design capacity for a three month period, which is broadly consistent with industry practice. Revenues, production costs and interest incurred on borrowings to finance the project were recognised in the income statement and depreciation of its asset base commenced from that date.

The Aktogay oxide plant achieved commercial production from 1 July 2016 after consistent production of at least 60% of its design capacity over a three month period. Revenues, production costs and interest incurred on borrowings to finance the project were recognised in the income statement with the commencement of depreciation of its assets from that date. For the Bozymchak operation, commercial production was reached on 1 July 2015. In making this assessment, the Directors considered the available capacity of the plant ahead of its planned November 2015 optimisation works and the consistent throughput of ore and plant recovery rates over a period demonstrating its ability to operate within the available parameters. Revenues and production costs and interest incurred on borrowings to finance this project were recognised in the income statement and depreciation of its asset base commenced from that date.

#### Impairment of assets

The Directors review the carrying value of the Group's assets to determine whether there are any indicators of impairment such that the carrying values of the assets may not be recoverable. The assessment of whether an indicator of impairment has arisen requires considerable judgement, taking account of future operational and financial plans, commodity prices, market demand and the competitive environment. Where such indicators exist, the carrying value of the assets of a cash generating unit is compared with the recoverable amount of those assets, that is, the higher of its fair value less costs to sell and value in use, which is determined on the basis of discounted future cash flows.

The preparation of discounted future cash flows includes management estimates of commodity prices, market demand and supply, future operating costs, economic and regulatory climates, capital expenditure requirements, long-term mine plans and other factors.

Any subsequent changes to cash flows due to changes in the factors listed above could impact the recoverable amount of the assets.

An assessment of the key external and internal factors, including short to long-term commodity prices, exchange rates, cash costs and production expectations affecting the Group and its cash generating units ('CGUs') at 31 December 2016 did not identify any indicators of impairment.

An impairment review was performed across the Group's principal CGUs at 31 December 2015 as a result of the lower short and medium-term commodity prices which were deemed to be indicators of impairment. Following the assessment, no impairments were recognised against any of the Group's CGUs.

#### Non-current inventories

Mining activities that may result in the stockpiling of ore which is not expected to be processed within 12 months of the balance sheet date, is considered to fall outside of the normal operating cycle of the operation and the ore is therefore classified as a non-current asset. The classification of stockpiled ore between non-current and current assets is based on judgements as to the expected timing of processing and on future production plans. The stockpiled ore is reflected at the lower of cost or net realisable value, with net realisable value subject to estimates of further processing and delivery costs and future commodity prices.

### **3. Significant accounting judgements and key sources of estimation uncertainty continued**

#### **Determination of ore reserves and useful lives of property, plant and equipment**

Ore reserves are estimates of the amount of product that can be economically and legally extracted from the Group's mining properties. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates. The Group estimates its ore reserves and mineral resources based on information compiled and reviewed by independent competent persons as defined in accordance with the JORC Code.

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

- asset recoverable amounts may be affected due to changes in estimated future cash flows;
- deferral of stripping costs which are determined using a waste to ore stripping ratio;
- depreciation, depletion and amortisation charged in the income statement may change where such charges are determined by the unit of production basis, or where the useful economic lives of assets change;
- decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- the carrying value of deferred tax assets may change due to changes in estimates of the likely recovery of tax benefits.

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

For property, plant and equipment depreciated on a straight-line basis over its useful economic life, the appropriateness of the asset's useful economic life is reviewed at least annually and any changes could affect prospective depreciation rates and asset carrying values.

#### **Decommissioning and site restoration costs**

The Directors use judgement and experience to provide for and amortise these costs over the life of the mines. The ultimate cost of decommissioning and rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, emergence of new restoration techniques and costs of materials and labour. The expected timing and extent of expenditure can also change in response to changes in ore reserve estimates, processing levels and even commodity prices. In estimating these costs, judgement is made on the expected timing of closure while future costs are discounted using expected discount rates. As such, there could be significant adjustments to the current provisions which would affect the future financial performance of the Group.

#### **Taxes**

The Directors make estimates and judgements in relation to the measurement and recognition of various taxes levied on the Group, which are both payable and recoverable. The estimation and judgement applies particularly to corporate income taxes, transfer pricing, VAT, royalties, non-deductible items and outcomes of tax disputes that would affect recognition of tax liabilities and deferred tax assets. Estimation and judgement over measurement and recognition also applies to taxes which are recoverable by the Group, principally VAT paid, in assessing future recoverability and the timing of such recovery. The tax obligations and receivables, upon audit by the tax authorities at a future date, may differ as a result of differing interpretations. These interpretations may impact estimates over the expected timing and quantum of taxes payable and recoverable.



## 4. 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 five 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 Group's operating segments are:

### East Region

The East Region is managed as one operating segment which contains the entity Vostoksvetmet LLC ('VCM'), whose principal activity is the mining and processing of copper and other metals which are produced as by-products from four underground mines and three concentrators located in the eastern region of Kazakhstan; and the associated international sales and marketing activities managed out of the UK. The East Region mines and concentrators are considered as one business segment given their relative operational similarity, use of common infrastructure, similar mining and concentrator methodologies, product profile and central management team.

### Bozymchak

The Bozymchak copper-gold open pit mine and concentrator located in Kyrgyzstan and the associated international sales and marketing activities managed out of the UK. The Bozymchak operation achieved commercial production on 1 July 2015 with its revenues and costs being recorded in the income statement from that date.

### Bozshakol

The Bozshakol open pit, sulphide concentrator and clay plant located in the Pavlodar region of Kazakhstan and the associated international sales and marketing activities managed out of the UK. The sulphide operation, which sells copper concentrate with gold content as a by-product, was commissioned in February 2016 and has been managed separately from the Mining Projects. The Bozshakol sulphide concentrator achieved commercial production on 27 October 2016 with its revenues and costs being recorded in the income statement from that date. The clay plant is currently in commissioning and is included in the Bozshakol operating segment due to sharing of infrastructure and mining pit, its relative small size and to reflect the Group's management structure. For the year ended 31 December 2015, Bozshakol was included in the Mining Projects segment.

### Aktogay

The Aktogay open pit, sulphide concentrator and oxide plant located in the east of Kazakhstan and the associated international sales and marketing activities managed out of the UK. The sulphide concentrator commenced commissioning in the last quarter of 2016 and is in pre-commercial production. With the commissioning of the sulphide plant, Aktogay is reflected as a separate segment. The oxide operation, which sells copper cathode, reached commercial production on 1 July 2016 having achieved consistent production of at least 60% above its design capacity for a period of over three months. Its revenues and production costs were recognised in the income statement with the commencement of depreciation of its assets from that date. The oxide plant is included in the Aktogay operating segment due to sharing of infrastructure, its relative small size and to reflect the Group's management structure. For the year ended 31 December 2015, Aktogay was included in the Mining Projects segment.

### Mining Projects

The Group's project companies, whose responsibility was the development of the Group's major growth projects until the respective concentrators are commissioned. For the year ended 31 December 2016, the segment includes the Koksay mineral deposit. The Mining Projects segment for the year ended 31 December 2015 included Bozshakol and Aktogay prior to their commissioning in 2016.

### 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, mineral extraction tax and royalties, 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 7). EBITDA (excluding special items) is a key non-IFRS measure that the Directors use internally to assess the performance of the Group's segments and is viewed as relevant to capital intensive industries with long life assets. The Directors also believe that this measure closely reflects the operating cash generative capacity and therefore the trading performance of the business as a whole. Special items are excluded to enhance comparability of EBITDA (excluding special items) from period to period.

The Group's Treasury department manages the Group's borrowings and 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.

Segmental information is also provided in respect of revenues, by destination and by product. Segmental information relating to employees is provided in note 8.

#### 4. Segment information continued

##### (a) Operating segments

##### (i) Income statement information

\$ million	Year ended 31 December 2016					
	East Region	Bozymchak	Bozshakol	Aktogay	Corporate Services	Total
<b>Revenues</b>						
Gross Revenues	533	88	280	68	–	969
Pre-commercial production revenues capitalised to property, plant and equipment <sup>1</sup>	–	–	(187)	(16)	–	(203)
<b>Revenues – income statement</b>	<b>533</b>	<b>88</b>	<b>93</b>	<b>52</b>	<b>–</b>	<b>766</b>
Gross EBITDA (excluding special items)	227	52	204	33	(24)	492
Pre-commercial production EBITDA capitalised to property, plant and equipment <sup>1,2</sup>	–	–	(137)	(4)	–	(141)
<b>EBITDA (excluding special items)</b>	<b>227</b>	<b>52</b>	<b>67</b>	<b>29</b>	<b>(24)</b>	<b>351</b>
Special items – note 7:						
Less: impairment charges	(3)	–	–	–	–	(3)
<b>EBITDA</b>	<b>224</b>	<b>52</b>	<b>67</b>	<b>29</b>	<b>(24)</b>	<b>348</b>
Less: depreciation, depletion and amortisation <sup>3</sup>	(35)	(7)	(11)	(6)	(1)	(60)
Less: mineral extraction tax and royalties <sup>2,3</sup>	(50)	(5)	(7)	(8)	–	(70)
<b>Operating profit/(loss)</b>	<b>139</b>	<b>40</b>	<b>49</b>	<b>15</b>	<b>(25)</b>	<b>218</b>
Net finance income						2
Income tax expense						(43)
<b>Profit for the year</b>						<b>177</b>

\$ million	Year ended 31 December 2015					
	East Region	Bozymchak	Mining Projects Bozshakol	Aktogay	Corporate Services	Total
<b>Revenues</b>						
Gross Revenues	649	28	–	–	–	677
Pre-commercial production revenues capitalised to property, plant and equipment <sup>1</sup>	–	(12)	–	–	–	(12)
<b>Revenues – income statement</b>	<b>649</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>665</b>
Gross EBITDA (excluding special items)	235	11	(10)	(3)	(25)	208
Pre-commercial production EBITDA capitalised to property, plant and equipment <sup>1,2</sup>	–	(6)	–	–	–	(6)
<b>EBITDA (excluding special items)</b>	<b>235</b>	<b>5</b>	<b>(10)</b>	<b>(3)</b>	<b>(25)</b>	<b>202</b>
Special items – note 7:						
Less: impairment charges	(12)	–	–	–	–	(12)
Add: NFC deferral benefit	–	–	–	16	–	16
Less: gain/(loss) on disposal of assets	1	–	–	–	(3)	(2)
<b>EBITDA</b>	<b>224</b>	<b>5</b>	<b>(10)</b>	<b>13</b>	<b>(28)</b>	<b>204</b>
Less: depreciation, depletion and amortisation	(48)	(3)	–	–	(1)	(52)
Less: mineral extraction tax and royalties <sup>2</sup>	(61)	(1)	–	–	–	(62)
<b>Operating profit/(loss)</b>	<b>115</b>	<b>1</b>	<b>(10)</b>	<b>13</b>	<b>(29)</b>	<b>90</b>
Net finance costs						(78)
Income tax expense						(24)
<b>Loss for the year</b>						<b>(12)</b>

1 During pre-commercial production, revenues and operating costs are capitalised to property, plant and equipment.

2 MET and royalties have been excluded from the key financial indicator of EBITDA. The Directors believe that MET and royalties are a substitute for a tax on profits, hence their exclusion provides an informed measure of the operational performance of the Group. The MET incurred at Bozshakol and Aktogay (oxide) during the pre-commercial production stage of \$25 million (2015: \$17 million) and \$9 million (2015: \$3 million) respectively has been capitalised to property, plant and equipment. MET incurred on stockpiled clay ore at Bozshakol and included within non-current inventory was \$33 million (2015: \$11 million).

3 Depreciation, depletion and amortisation and MET and royalties excludes the costs associated with inventories on the balance sheet.

(ii) Balance sheet information

At 31 December 2016

\$ million	East Region	Bozymchak	Bozshakol	Aktogay	Mining Projects – Koksay	Corporate Services	Total
<b>Assets</b>							
Property, plant and equipment, mining assets and intangible assets <sup>1</sup>	247	58	1,291	1,261	241	2	3,100
Intragroup investments	–	–	–	–	–	5,195	5,195
Other non-current assets <sup>2</sup>	8	21	214	120	1	–	364
Operating assets <sup>3</sup>	147	51	140	82	–	346	766
Inter-segment loans	–	–	–	–	–	1,914	1,914
Cash and cash equivalents	35	6	33	293	1	740	1,108
<b>Segment assets</b>	<b>437</b>	<b>136</b>	<b>1,678</b>	<b>1,756</b>	<b>243</b>	<b>8,197</b>	<b>12,447</b>
Deferred tax asset							72
Income taxes receivable							7
Elimination							(7,469)
<b>Total assets</b>							<b>5,057</b>
<b>Liabilities</b>							
Employee benefits and provisions	64	2	6	2	–	–	74
Inter-segment borrowings	16	120	1,020	758	–	–	1,914
Operating liabilities <sup>4</sup>	67	84	291	420	3	98	963
<b>Segment liabilities</b>	<b>147</b>	<b>206</b>	<b>1,317</b>	<b>1,180</b>	<b>3</b>	<b>98</b>	<b>2,951</b>
Borrowings							3,777
Deferred tax liability							56
Income taxes payable							11
Elimination							(2,274)
<b>Total liabilities</b>							<b>4,521</b>

#### 4. Segment information continued

##### (a) Operating segments continued

##### (ii) Balance sheet information continued

\$ million	At 31 December 2015						Total
	East Region	Bozymchak	Bozshakol	Aktogay	Mining Projects Koksay	Corporate Services	
<b>Assets</b>							
Property, plant and equipment, mining assets and intangible assets <sup>1</sup>	190	47	1,166	756	239	2	2,400
Intragroup investments	—	—	—	—	—	6,855	6,855
Other non-current assets <sup>2</sup>	6	17	158	74	1	—	256
Operating assets <sup>3</sup>	127	31	18	20	—	149	345
Inter-segment loans	—	—	—	—	—	1,579	1,579
Current investments	—	—	—	—	—	400	400
Cash and cash equivalents	22	4	6	31	—	788	851
<b>Segment assets</b>	345	99	1,348	881	240	9,773	12,686
Deferred tax asset							59
Income taxes receivable							1
Elimination							(8,588)
<b>Total assets</b>							4,158
<b>Liabilities</b>							
Employee benefits and provisions	17	2	3	2	—	—	24
Inter-segment borrowings	16	135	860	568	—	—	1,579
Operating liabilities <sup>4</sup>	52	74	157	48	4	84	419
<b>Segment liabilities</b>	85	211	1,020	618	4	84	2,022
Borrowings							3,504
Deferred tax liability							31
Income taxes payable							12
Elimination							(1,733)
<b>Total liabilities</b>							3,836

1 Property, plant and equipment, mining assets and intangible assets are located in the principal country of operations of each operating segment. The East Region, Bozshakol, Aktogay and Mining Projects segments operate in Kazakhstan. Bozymchak operates in Kyrgyzstan.

2 Other non-current assets include other non-current investments, non-current VAT receivable, advances paid for property, plant and equipment and long-term inventory.

3 Operating assets comprise inventories, prepayments and other current assets and trade and other receivables, including intragroup receivables.

4 Operating liabilities comprise trade and other payables, including intragroup payables, other non-current and current liabilities.



(iii) Capital expenditure<sup>1</sup>

Year ended 31 December 2016							
\$ million	East Region	Bozymchak	Bozshakol <sup>2</sup>	Aktogay <sup>2</sup>	Mining Projects – Koksay	Corporate Services	Total
Property, plant and equipment <sup>2,3</sup>	21	7	90	150	–	1	269
Mining assets <sup>2,3</sup>	31	2	12	6	1	–	52
Intangible assets	1	–	2	–	–	–	3
<b>Capital expenditure</b>	<b>53</b>	<b>9</b>	<b>104</b>	<b>156</b>	<b>1</b>	<b>1</b>	<b>324</b>

Year ended 31 December 2015							
\$ million	East Region	Bozymchak <sup>2</sup>	Bozshakol <sup>2</sup>	Aktogay <sup>2</sup>	Mining Projects – Koksay	Corporate Services	Total
Property, plant and equipment <sup>2,3</sup>	44	5	514	462	1	–	1,026
Mining assets <sup>2,3</sup>	21	4	12	6	53	–	96
Intangible assets	–	–	1	2	–	1	4
<b>Capital expenditure</b>	<b>65</b>	<b>9</b>	<b>527</b>	<b>470</b>	<b>54</b>	<b>1</b>	<b>1,126</b>

1 The capital expenditure presented by operating segment reflects cash paid and is aligned with the Group's internal capital expenditure reporting.

2 At Aktogay and Bozshakol, \$12 million of cash outflows and \$12 million cash inflows respectively, relating to pre-commercial production were capitalised (2015: outflows of \$13 million and \$21 million respectively). Of the \$12 million cash inflow at Bozshakol in 2016, \$52 million was spent on the production of long-term stockpiled clay ore. For the year ended 31 December 2015, cash capital expenditure for Bozymchak of \$9 million includes the capitalisation of \$2 million of net operating cash flows generated in the period before the project reached commercial production.

3 Capital expenditure includes non-current advances paid for items of property, plant and equipment and mining assets.

(b) Segmental information in respect of revenues

Revenues by product to third parties are as follows:

Year ended 31 December 2016					
\$ million	East Region	Bozymchak	Bozshakol	Aktogay	Total
Copper cathodes	357	32	–	68	457
Copper in concentrate	7	3	202	–	212
Zinc in concentrate	95	–	–	–	95
Gold	26	43	–	–	69
Gold in concentrate	–	6	73	–	79
Silver	42	4	–	–	46
Silver in concentrate	–	–	5	–	5
Other revenue	6	–	–	–	6
Gross Revenues	533	88	280	68	969
Less pre-commercial production revenues capitalised to property, plant and equipment	–	–	(187)	(16)	(203)
<b>Revenues – income statement</b>	<b>533</b>	<b>88</b>	<b>93</b>	<b>52</b>	<b>766</b>

Year ended 31 December 2015					
\$ million	East Region	Bozymchak	Bozshakol	Aktogay	Total
Copper cathodes	452	13	–	–	465
Zinc in concentrate	102	–	–	–	102
Gold	26	15	–	–	41
Silver	46	–	–	–	46
Other by-products	20	–	–	–	20
Other revenue	3	–	–	–	3
Gross Revenues	649	28	–	–	677
Less pre-commercial production revenues capitalised to property, plant and equipment	–	(12)	–	–	(12)
<b>Revenues – income statement</b>	<b>649</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>665</b>

Most of the Group's sales agreements are based on provisional pricing with the final pricing usually determined by the average market price of the respective metal in the month (for silver), the month following (for copper cathode and zinc concentrate) or the second month following (for copper concentrate) dispatch to the customer. At 31 December 2016, the Group's provisionally priced volumes and their respective average provisional price were:

#### 4. Segment information continued

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

	Copper		Zinc		Gold		Silver
	2016	2015	2016	2015	2016	2015	2015
Provisionally priced volumes	16 kt	2 kt	4 kt	6 kt	34 koz	3 koz	148 koz
Weighted average provisional price	\$5,134/t	\$4,867/t	\$1,517/t	\$859/t	\$1,261/oz	\$1,071/oz	\$17/oz

The final prices for the provisionally priced volumes shown above will be determined during the first quarter after the year end.

Revenues by destination from sales to third parties are as follows:

\$ million	Year ended 31 December 2016				
	East Region	Bozymchak	Bozshakol	Aktogay	Total
China	252	23	280	15	570
Europe	182	13	—	53	248
Kazakhstan and Central Asia	99	52	—	—	151
Gross Revenues	533	88	280	68	969
Less pre-commercial production revenues capitalised to property, plant and equipment	—	—	(187)	(16)	(203)
Revenues – income statement	533	88	93	52	766

\$ million	Year ended 31 December 2015				
	East Region	Bozymchak	Mining Projects		Total
			Bozshakol	Aktogay	
China	339	8	—	—	347
Europe	183	5	—	—	188
Kazakhstan	127	15	—	—	142
Gross Revenues	649	28	—	—	677
Less pre-commercial production revenues capitalised to property, plant and equipment	—	(12)	—	—	(12)
Revenues – income statement	649	16	—	—	665

##### Year ended 31 December 2016

Two customers, which each represent more than 10% of Gross Revenues, in aggregate comprise 32% or \$313 million of Gross Revenues. The largest customer, which represents 19% (\$184 million) of Gross Revenues contributes to the Bozshakol (85%) and East Region (15%) segments. The second largest customer representing 13% of Gross Revenues (\$129 million) contributes to the Bozshakol (96%) and East Region (4%) segments.

##### Year ended 31 December 2015

Five customers within the East Region segment, two of which are collectively under common control, represent 47% of revenues. The revenues from these customers is \$311 million. The revenues from the two customers under common control of \$76 million represents 11% of revenues. Revenues from the remaining major customers of \$235 million represent 35% of revenues.

#### 5. Cost of sales, selling and distribution expenses and administrative expenses

##### (a) Cost of sales

\$ million	2016	2015
Raw materials	104	76
Purchased cathode	—	28
Employee salaries and payroll taxes	70	68
Depreciation, depletion and amortisation	80	47
Refining services	68	81
Production overheads	73	89
Mineral Extraction Tax	102	61
Other taxes	3	2
Change in work in progress and finished goods	(87)	(23)
	413	429

##### (b) Selling and distribution expenses

\$ million	2016	2015
Transportation expenses	24	23
Royalties	6	1
Other	2	3
	32	27

### (c) Administrative expenses

\$ million	2016	2015
Employee salaries and payroll taxes	47	54
Social responsibility costs	10	14
Legal and professional fees	12	14
Utilities	6	8
Transportation	—	2
Business travel	6	5
Personal injury claims	6	2
Levies and charges	2	5
Depreciation and amortisation	4	5
Supplies	5	6
Other	6	11
	104	126

### (d) Net other operating income

For the year ended 31 December 2015, the net other operating income included the following items:

#### NFC deferral benefit

In November 2015, the Group signed an agreement with NFC under which \$300 million of Aktogay construction costs, scheduled to be paid in 2016 and 2017, will be settled in the first half of 2018 with no change to the overall amount payable to NFC. The agreement to defer payments gave rise to a non-cash gain of \$16 million representing the estimated benefit to the Group.

#### Impact of fire at Bozshakol

A fire which occurred in August 2015 in the grinding area of the Bozshakol concentrator caused damage to \$7 million of equipment, the cost of which was recoverable against construction insurance. The damaged equipment has been written-off to other operating expenses with the insurance payment recognised in other operating income with a net effect of nil.

## 6. Impairment losses

\$ million	2016	2015
Impairment charges against property, plant and equipment <sup>1</sup>	3	8
Impairment charges against mining assets <sup>1</sup>	—	4
Provisions raised against trade and other receivables	—	2
Provisions raised against inventories	—	1
	3	15

<sup>1</sup> 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 13).

### Year ended 31 December 2016

#### East Region – impairment charges

An impairment of \$3 million has been recognised against items of property, plant and equipment which are no longer expected to be utilised.

### Year ended 31 December 2015

#### East Region – impairment charges

An impairment of \$8 million was recognised against administrative land and buildings in Kazakhstan, retained in the Restructuring, which were no longer in use.

In addition, a charge of \$4 million was recognised against mine development works which were not expected to be utilised.

## 7. 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	2016	2015
<b>Special items within operating profit</b>		
Impairment charges – note 6	3	12
Impairment charges against property, plant and equipment	3	8
Impairment charges against mining assets	–	4
Loss on disposal of assets	–	2
NFC deferral benefit – note 5(d)	–	(16)
	3	(2)
<b>Taxation related special items</b>		
Recognition of a deferred tax liability resulting from impairment charges	–	1
Recognition of a deferred tax liability resulting from the NFC deferral benefit	–	3
Total special items	3	2

## 8. Employee information

\$ million	2016	2015
Wages and salaries	158	165
Social security costs	17	22
Employee benefits – note 25	6	2
	181	189

Employee costs include \$57 million (2015: \$64 million) capitalised to mining and other fixed assets primarily related to the pre-commercial period of production and to the construction of the major growth projects and \$124 million (2015: \$125 million) recognised in the income statement.

Other non-monetary employee benefits (including sanatorium visits, medical services and treatment expenses) are also provided by Vostoksvetmet LLC, and are included in the income statement in the expense line relating to the nature of the cost.

The average monthly number of employees within the operations and reflected by segment, during the year, was as follows:

	2016	2015
East Region	8,272	7,734
Bozymchak	1,039	940
Bozshakol <sup>I</sup>	1,401	752
Aktogay <sup>I</sup>	992	386
Mining Projects <sup>I</sup>	13	15
Central services including Corporate	408	376
	12,125	10,203

<sup>I</sup> In the 2015 Annual Report and Accounts the Bozshakol and Aktogay average monthly number of employees of 752 and 386 respectively were included in the Mining Projects segment. In 2016 the Bozshakol and Aktogay employee numbers have been included in their own separate segments and the 2015 comparative data restated accordingly.

Analysed by location of employees as:

	2016	2015
Central Asia <sup>I</sup>	12,089	10,161
UK	33	35
Netherlands	1	1
China	2	6
	12,125	10,203

<sup>I</sup> Includes Kazakhstan and Kyrgyzstan.



## 9. Key management personnel

In accordance with IAS 24 'Related party disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Key management personnel were deemed to be the Directors of the Company, the Head of Projects and Aktogay Operations, the Bozshakol General Director, the East Region General Director, the Bozymchak General Director and the General Director of KAZ Minerals Management LLP. The Bozshakol General Director was appointed to this position on 12 August 2016 and replaced the previous Head of Projects (Operations). There were no other changes to the composition of the key management personnel in 2016.

Compensation for key management personnel (including Directors) comprises the following:

\$ million	2016	2015
Salaries	5.5	6.2
Annual bonuses	6.1	2.8
Share awards <sup>1</sup>	2.0	1.9
Benefits	0.4	0.5
	14.0	11.4

<sup>1</sup> Share awards are long term in nature and may be awarded with a vesting period of up to three years.

The aggregate amount paid and accrued in respect of Directors was £5.1 million (2015: £5.1 million). Details are included in the Directors' Remuneration Report.

## 10. Auditor's remuneration

The auditor's remuneration for services provided to the Group during the year ended 31 December 2016 was \$1.6 million (2015: \$1.4 million), comprised as follows:

\$ million	2016	2015
<b>Audit and other services:</b>		
Amounts receivable by the Company's auditor and its associates for the audit of these financial statements	0.7	0.7
Amounts receivable by the Company's auditor and its associates in respect of:		
– the audit of financial statements of subsidiaries of the Company	0.4	0.5
– audit-related assurance services	0.2	0.2
– regulatory reporting services pursuant to legislation as reporting accountants	0.3	–
<b>Total remuneration</b>	<b>1.6</b>	<b>1.4</b>

## 11. Finance income and finance costs

\$ million	2016	2015
<b>Finance income</b>		
Interest income	9	9
Foreign exchange gains	107	183
	116	192
<b>Finance costs</b>		
Interest expense	(42)	(23)
Total interest expense <sup>1</sup>	(205)	(155)
Less: amounts capitalised to the cost of qualifying assets <sup>2,3</sup>	163	132
Interest on employee obligations	(1)	(2)
Unwinding of discount on provisions and other liabilities	(2)	(2)
Finance costs before foreign exchange losses	(45)	(27)
Foreign exchange losses	(69)	(243)
	(114)	(270)

<sup>1</sup> Total interest expense includes \$197 million of interest incurred on borrowings and \$8 million relating to the unwinding of the discount on the NFC deferral agreement (see note 27).

<sup>2</sup> In 2016, the Group capitalised to the cost of qualifying assets \$155 million (2015: \$132 million) of borrowing costs incurred on the outstanding debt during the period on the CDB-Bozshakol and Bozymchak facilities at an average rate of interest (net of interest income) of 5.40% (2015: 4.97%) and on the CDB-Aktogay US\$ and CNY facilities at an average rate of interest of 5.12% and 4.33% respectively (2015: 4.64% and 3.93%). Interest capitalised includes \$8 million of unwinding of interest on the deferred NFC payable (see note 27).

<sup>3</sup> Interest cost on borrowings capitalised to qualifying assets of \$155 million will be deductible for tax purposes against future taxable income as an annual wear and tear allowance on assets or when incurred based on country specific tax definitions. The capitalised interest will provide tax relief at 20%, being the currently applicable corporate income tax rate of Kazakhstan where the assets are located.

Further information relating to finance income and costs is in the Finance Review on page 36.

## 12. Income taxes

### (a) Income tax expense

Major components of income tax expense are:

\$ million	2016	2015
<b>Current income tax</b>		
Corporate income tax – current period (UK)	–	–
Corporate income tax – current period (overseas)	31	38
Corporate income tax – prior periods	1	1
<b>Deferred income tax</b>		
Corporate income tax – current period temporary differences	14	(16)
Corporate income tax – prior periods temporary differences	(3)	1
	<b>43</b>	<b>24</b>

A reconciliation of the income tax expense applicable to the accounting profit before tax at the statutory income tax rate to the income tax expense at the effective income tax rate is as follows:

\$ million	2016	2015
Profit before tax	220	12
At UK statutory income tax rate of 20.0% (2015: 20.25%) <sup>1</sup>	44	2
Underprovided in prior periods – current income tax	1	1
(Over)/under provided in prior periods – deferred income tax	(3)	1
Unrecognised tax losses	3	4
Effect of domestic tax rates applicable to individual Group entities	(5)	6
Non-deductible items:		
Transfer pricing	1	–
Other non-deductible expenses	2	10
	<b>43</b>	<b>24</b>

<sup>1</sup> The UK statutory rate for 2016 was 20.0%. For 2015, the UK statutory rate for January to March 2015 was 21.0% and for April to December 2015 was 20.0%, giving a weighted average full year rate of 20.25%.

Corporate income tax ('CIT') is calculated at 20.0% (2015: 20.25%) of the assessable profit for the year for the Company and its UK subsidiaries, 20.0% for the operating subsidiaries in Kazakhstan (2015: 20.0%) and 10.0% for the Group's Kyrgyzstan based subsidiary (2015: 10.0%).

### Effective tax rate

Tax charges are affected by the mix of profits and tax jurisdictions in which the Group operates. The lower tax rate in Kyrgyzstan lowers the Group's overall effective tax rate below the current UK statutory corporate tax rate. The impact of unrecognised tax losses and non-deductible items, including impairment losses, increases the Group's overall effective tax rate.

The following factors impact the effective tax rate for the year ended 31 December 2016:

### Unrecognised tax losses

Deferred tax assets have not been recognised on tax losses at Bozymchak, given the five year statute of limitations and as it remains uncertain whether it will have sufficient taxable profits after capital allowances in the future to utilise these losses, and in the United Kingdom, given limitations on the carry forward of Group losses.

### Other non-deductible expenses

Non-deductible items mainly comprise of supplier replaced equipment treated as gains for tax purposes and social community investments and contributions, which are not generally deductible, at Bozshakol and impairment charges and provisions recognised against various assets most notably in the East Region operations. The 2015 non-deductible expenses mainly reflect impairment charges and social spend.

Further information relating to income taxes and the change in the effective tax rate is in the Finance Review on page 37.

## (b) Recognised deferred tax assets and liabilities

The amounts of deferred taxation assets/(liabilities) provided in the consolidated financial statements are as follows:

\$ million	At 1 January 2016	Charged to income statement	Net exchange translation	31 December 2016
Intangible assets	–	(1)	–	(1)
Property, plant and equipment	14	(52)	–	(38)
Mining assets	5	(1)	1	5
Inventories	(1)	8	–	7
Trade and other receivables	(3)	–	–	(3)
Provisions and employee benefits	5	9	1	15
Trade and other payables	(19)	(17)	(2)	(38)
Tax losses	26	43	(1)	68
Share-based payment schemes	1	–	–	1
<b>Deferred tax asset, net</b>	<b>28</b>	<b>(11)</b>	<b>(1)</b>	<b>16</b>
Analysed as:				
Deferred tax asset	59	14	(1)	72
Deferred tax liability	(31)	(25)	–	(56)

\$ million	At 1 January 2015	Charged to income statement	Net exchange translation	31 December 2015
Intangible assets	(1)	–	1	–
Property, plant and equipment	24	7	(17)	14
Mining assets	9	1	(5)	5
Inventories	–	(1)	–	(1)
Trade and other receivables	1	(3)	(1)	(3)
Provisions and employee benefits	6	2	(3)	5
Trade and other payables	(16)	(19)	16	(19)
Tax losses	–	29	(3)	26
Share-based payment schemes	2	(1)	–	1
<b>Deferred tax asset, net</b>	<b>25</b>	<b>15</b>	<b>(12)</b>	<b>28</b>
Analysed as:				
Deferred tax asset	42	29	(12)	59
Deferred tax liability	(17)	(14)	–	(31)

## (c) Unrecognised deferred tax assets

Deferred tax assets not recognised in the consolidated financial statements are as follows:

\$ million	2016		2015	
	Temporary difference	Deferred tax asset	Temporary difference	Deferred tax asset
<b>Kyrgyzstan</b>				
Losses carried forward	122	12	145	15
Other deductible temporary differences	110	11	39	4
<b>UK</b>				
Losses carried forward	85	14	45	9

Details of the Group's tax losses arising in the jurisdictions in which it operates are as follows:

### (i) Kyrgyzstan

At 31 December 2016, KAZ Minerals Bozymchak LLC had accumulated tax losses which remained unrecognised. These losses can be utilised against future taxable profits within the statute of limitations period, which for tax losses is currently five years. The previous impairments attributed to Bozymchak indicate that utilisation of these losses may extend beyond the five year period and therefore were not recognised.

### (ii) United Kingdom

Certain companies in the UK have tax losses that can be carried forward and used against future taxable profits. There is no time restriction over the utilisation of tax losses. Where there is sufficient certainty that a taxable profit will arise in these companies against which the losses can be offset, deferred tax assets are recognised.

## 12. Income taxes continued

### (d) Unrecognised deferred tax liability

The gross temporary differences in respect of the undistributed reserves of the Group's subsidiaries, as shown in their statutory accounts prepared in accordance with applicable accounting standards, are as follows:

\$ million	2016	2015
Undistributed reserves of subsidiaries	4,548	3,903

The Group has not recognised all of the deferred tax liability in respect of the distributable reserves of its subsidiaries because it controls them and only part of the temporary differences are expected to reverse in the foreseeable future.

## 13. Earnings per share

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

\$ million (unless otherwise stated)	2016	2015
Net profit/(loss) attributable to equity shareholders of the Company	177	(12)
Special items net of taxation – note 7	3	2
<b>Underlying Profit/(Loss)</b>	<b>180</b>	<b>(10)</b>
Weighted average number of ordinary shares of 20 pence each for EPS based on Underlying Profit/(Loss) calculation	446,504,093	446,261,874
Ordinary EPS – basic and diluted (\$)	0.40	(0.03)
EPS based on Underlying Profit/(Loss) – basic and diluted (\$)	0.40	(0.02)

### (a) Ordinary EPS

Basic EPS is calculated by dividing profit/(loss) for the year attributable to equity holders 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 any share buy-back programmes are both held in treasury and treated as own shares.

### (b) EPS based on Underlying Profit/(Loss)

The Group's Underlying Profit/(Loss) is the net profit/(loss) for the year excluding special items and their resultant tax and non-controlling interest effects, as shown in the table above. EPS based on Underlying Profit/(Loss) is calculated by dividing Underlying Profit/(Loss) attributable to equity holders of the Company by the weighted average number of ordinary shares of 20 pence each outstanding during the year. EPS based on Underlying Profit/(Loss) is a non-IFRS measure that the Directors believe provides a consistent measure for comparing the underlying trading performance of the Group.

Further information relating to EPS based on Underlying profit is in the Finance Review on page 37.

## 14. Intangible assets

\$ million	2016	2015
<b>Cost</b>		
At 1 January	11	15
Additions	3	4
Disposals	(1)	–
Net exchange adjustment	1	(8)
<b>At 31 December</b>	<b>14</b>	<b>11</b>
<b>Amortisation</b>		
At 1 January	4	4
Amortisation charge	2	3
Net exchange adjustment	–	(3)
<b>At 31 December</b>	<b>6</b>	<b>4</b>
<b>Net book value</b>		
<b>At 31 December</b>	<b>8</b>	<b>7</b>



## 15. Property, plant and equipment

\$ million	Land and buildings	Plant and equipment	Other	Construction in progress	Total
<b>Cost</b>					
At 1 January 2015	196	231	79	2,189	2,695
Additions	3	18	12	1,077	1,110
Capitalised borrowing costs	—	—	—	129	129
Capitalised depreciation	—	—	—	16	16
Transfers <sup>1</sup>	463	198	13	(674)	—
Disposals	(8)	(9)	(1)	(6)	(24)
Net exchange adjustment	(189)	(166)	(38)	(1,203)	(1,596)
At 31 December 2015	465	272	65	1,528	2,330
Additions <sup>2,3</sup>	29	25	11	450	515
Capitalised borrowing costs	—	—	—	163	163
Capitalised depreciation	—	—	—	19	19
Transfers <sup>4</sup>	257	880	7	(1,144)	—
Disposals	(23)	(6)	(2)	—	(31)
Net exchange adjustment	27	39	2	8	76
At 31 December 2016	755	1,210	83	1,024	3,072
<b>Depreciation and impairment</b>					
At 1 January 2015	80	138	31	182	431
Depreciation charge	20	24	9	—	53
Transfers <sup>5</sup>	150	24	(6)	(168)	—
Disposals	(7)	(9)	(1)	(1)	(18)
Impairment	7	—	—	1	8
Net exchange adjustment	(76)	(72)	(4)	(11)	(163)
At 31 December 2015	174	105	29	3	311
Depreciation charge	32	55	9	—	96
Transfers	1	—	(1)	—	—
Disposals	(18)	(5)	(1)	—	(24)
Impairment	1	—	—	2	3
Net exchange adjustment	12	4	—	—	16
At 31 December 2016	202	159	36	5	402
<b>Net book value</b>					
At 31 December 2016	553	1,051	47	1,019	2,670
At 31 December 2015	291	167	36	1,525	2,019

1 Transfers principally relate to Bozymchak which reached commercial production on 1 July 2015 and certain Aktogay and Bozshakol assets which were commissioned for use in the second half of 2015.

2 Additions for Bozshakol sulphide and the Aktogay oxide operations include \$110 million and \$16 million of net proceeds capitalised ahead of pre-commercial production on 27 October 2016 and 1 July 2016, respectively.

3 Includes \$25 million arising from changes in closure provision estimates.

4 Transfers principally relate to the Bozshakol sulphide and Aktogay oxide assets, which reached commercial production on 27 October and 1 July 2016 respectively.

5 The transfer of \$168 million in 2015 reflects the allocation of historical impairments on Bozymchak transferred to the appropriate categories in conjunction with the transfer of the related assets as described above.

## 16. Mining assets

\$ million	Mineral licences and properties	Exploration cost	Mine development costs	Mine stripping costs	Construction in progress	Total
<b>Cost</b>						
At 1 January 2015	237	143	293	15	38	726
Additions	46	4	10	15	11	86
Capitalised borrowing costs	—	—	3	—	—	3
Capitalised depreciation	—	—	4	—	—	4
Transfers	—	(33)	45	—	(12)	—
Disposals	—	—	(4)	—	—	(4)
Net exchange adjustment	(44)	(29)	(165)	(5)	(22)	(265)
At 31 December 2015	239	85	186	25	15	550
Additions <sup>1</sup>	—	1	10	25	31	67
Transfers	—	(70)	88	—	(18)	—
Disposals	—	—	(46)	—	—	(46)
Net exchange adjustment	1	1	10	2	1	15
<b>At 31 December 2016</b>	<b>240</b>	<b>17</b>	<b>248</b>	<b>52</b>	<b>29</b>	<b>586</b>
<b>Depletion and impairment</b>						
At 1 January 2015	2	87	149	11	1	250
Depletion charge	—	—	24	1	—	25
Disposals	—	—	(1)	—	—	(1)
Impairment	—	—	2	—	2	4
Net exchange adjustment	(1)	(19)	(77)	(2)	(3)	(102)
At 31 December 2015	1	68	97	10	—	176
Depletion charge	—	—	18	6	—	24
Transfers	—	(67)	67	—	—	—
Disposals	—	—	(45)	—	—	(45)
Net exchange adjustment	—	—	8	1	—	9
<b>At 31 December 2016</b>	<b>1</b>	<b>1</b>	<b>145</b>	<b>17</b>	<b>—</b>	<b>164</b>
<b>Net book value</b>						
<b>At 31 December 2016</b>	<b>239</b>	<b>16</b>	<b>103</b>	<b>35</b>	<b>29</b>	<b>422</b>
At 31 December 2015	238	17	89	15	15	374

<sup>1</sup> Includes \$17 million arising from changes in closure provision estimates.

## 17. Other non-current assets

\$ million	2016	2015
Advances paid for property, plant and equipment	18	83
Non-current VAT receivable <sup>1</sup>	264	159
Non-current inventories <sup>2</sup>	82	17
Long-term bank deposits <sup>3</sup>	2	2
Gross value of other non-current assets	366	261
Provision for impairment	(2)	(5)
	<b>364</b>	<b>256</b>

<sup>1</sup> Comprises VAT incurred during the construction phase of the Bozshakol, Aktogay and Bozymchak projects which is subject to audit and other administrative procedures prior to refund.

<sup>2</sup> Non-current inventories comprise ore stockpiles that are expected to be processed in the medium term i.e. in excess of 12 months from the balance sheet date and relate mainly to the clay ore from Bozshakol.

<sup>3</sup> Long-term bank deposits include long-term deposits placed in escrow accounts with financial institutions in Kazakhstan as required by the Group's site restoration obligations.

## 18. Inventories

\$ million	2016	2015
Raw materials and consumables	97	38
Work in progress	108	49
Finished goods	47	30
Gross value of inventories	252	117
Inventories provision	(5)	(4)
	247	113

The carrying amount of inventory that has been written down to net realisable value is \$5 million (2015: \$4 million).

## 19. Prepayments and other current assets

\$ million	2016	2015
Advances paid for goods and services	19	11
VAT receivable	32	22
Amounts due from related parties	–	6
Other	3	17
Gross value of prepayments and other current assets	54	56
Provision for impairment of prepayments and other current assets	–	(1)
	54	55

## 20. Trade and other receivables

\$ million	2016	2015
Trade receivables	105	23
Amounts due from related parties	2	8
Amounts due from third parties	103	15
Interest receivable	1	1
Gross value of trade and other receivables	106	24
Provision for impairment of receivables	(1)	(1)
	105	23

## 21. Current investments

\$ million	2016	2015
At 1 January	400	400
Additions	–	–
Disposals	(400)	–
At 31 December <sup>1</sup>	–	400

<sup>1</sup> Given the profile of the Group's projected cash flows for capital expenditure and debt repayments for the next 12 month period, current investments were reclassified to cash and cash equivalents.

## 22. Cash and cash equivalents

\$ million	2016	2015
Cash deposits with short term initial maturities <sup>1</sup>	820	550
Cash at bank <sup>1</sup>	288	301
	1,108	851

<sup>1</sup> At 31 December 2016, cash and cash equivalents include approximately \$170 million of cash drawn down under the CDB-Aktogay financing facility (2015: \$224 million).

## 23. Share capital and reserves

### (a) Allotted share capital

	Number	£ million	\$ million
<b>Allotted and called up share capital – ordinary shares of 20 pence each</b>			
At 1 January 2015, 31 December 2015 and 2016	458,379,033	92	171

The allotted share capital was fully paid. During the year 14,774 treasury shares were used to satisfy awards under the Company's Save As You Earn ('SAYE') schemes that matured in 2016. At 31 December 2016, the Company holds 11,687,056 (2015: 11,701,830) ordinary shares in treasury and the issued share capital of the Company which carries voting rights of one vote per share, comprises 446,691,977 (2015: 446,677,203) ordinary shares (excluding treasury shares).

### (b) 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 2016 the Company made a market purchase of 250,000 shares at a cost of \$0.6 million through the Trust in anticipation of satisfying future awards. 218,249 shares (2015: 330,830) were transferred out of the Trust in settlement of share awards granted to employees that were exercised during the period.

At 31 December 2016, the Group, through the Employee Benefit Trust, owned 243,156 shares in the Company (2015: 211,405) with a market value of \$1.1 million and a cost of \$4.6 million (2015: \$0.3 million and \$4.0 million respectively). The shares held by the Trust represented 0.05% (2015: 0.05%) of the issued share capital at 31 December 2016.

### (c) Capital reserves

\$ million	Currency translation reserve	Capital redemption reserve	Total
At 1 January 2015	(330)	31	(299)
Exchange differences on retranslation of foreign operations	(1,773)	–	(1,773)
At 31 December 2015	(2,103)	31	(2,072)
Exchange differences on retranslation of foreign operations	35	–	35
<b>At 31 December 2016</b>	<b>(2,068)</b>	<b>31</b>	<b>(2,037)</b>

#### (i) 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.

#### (ii) Capital redemption reserve

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

## 24. Borrowings

	Maturity	Average interest rate during the year	Currency of denomination	Current \$ million	Non-current \$ million	Total \$ million
<b>31 December 2016</b>						
CDB-Bozshakol and Bozymchak – US\$ LIBOR + 4.50%	2025	5.40%	US dollar	183	1,520	1,703
CDB-Aktogay facility – PBoC 5 year	2028	4.33%	CNY	11	120	131
CDB-Aktogay facility – US\$ LIBOR + 4.20%	2029	5.12%	US dollar	–	1,325	1,325
Pre-export finance facility – US\$ LIBOR + 3.00% – 4.50%	2018	4.97%	US dollar	137	144	281
Caterpillar revolving credit facility – US\$ LIBOR + 4.25%	2019	4.92%	US dollar	–	40	40
Development Bank of Kazakhstan – US\$ LIBOR + 4.50%	2025	5.79%	US dollar	–	297	297
				<b>331</b>	<b>3,446</b>	<b>3,777</b>
<b>31 December 2015</b>						
CDB-Bozshakol and Bozymchak – US\$ LIBOR + 4.50%	2025	4.97%	US dollar	183	1,698	1,881
CDB-Aktogay facility – PBoC 5 year	2028	3.93%	CNY	13	140	153
CDB-Aktogay facility – US\$ LIBOR + 4.20%	2029	4.64%	US dollar	–	1,075	1,075
Pre-export finance facility – US\$ LIBOR + 3.00% – 4.50%	2018	3.69%	US dollar	107	238	345
Caterpillar revolving credit facility – US\$ LIBOR + 4.25%	2019	4.70%	US dollar	–	50	50
				<b>303</b>	<b>3,201</b>	<b>3,504</b>

### CDB-Bozshakol and Bozymchak facilities

On 29 December 2014, the Group signed an amendment to the \$2.7 billion CDB/Samruk-Kazyna finance facilities, which resulted in the facilities becoming bilateral with the CDB and a lowering of the interest rate from US\$ LIBOR plus 4.80% to US\$ LIBOR plus 4.50%. An arrangement fee of 0.5% was agreed of which 60% was paid in December 2014 and 40% was paid in January 2016. The amount outstanding on the previous facility at the time of the amendment was \$2.1 billion. The restructuring of the facilities with Samruk-Kazyna and the CDB completed in March 2015. All other material terms of the facilities remained unchanged. KAZ Minerals PLC acts as guarantor of the facilities.

At 31 December 2016, \$1.7 billion (2015: \$1.9 billion) was drawn under the facility agreements. Arrangement fees with an amortised cost of \$20 million (2015: \$24 million) have been netted off against these borrowings in accordance with IAS 39. \$183 million (2015: \$181 million) was repaid on the facility in 2016, with \$183 million due to be paid within 12 months of the balance sheet date.

### CDB-Aktogay finance facility

The CDB-Aktogay finance facility consists of a CNY 1.0 billion facility and a \$1.3 billion US dollar facility. The funds mature 15 years from the date of the first draw down. KAZ Minerals PLC acts as guarantor of the loans.

The CNY 1.0 billion facility was fully drawn at 31 December 2015. At 31 December 2016, the drawn US dollar equivalent amount was \$131 million (31 December 2015: \$153 million). The facility accrues interest at the applicable benchmark lending rate published by the People's Bank of China. During 2016, the Group made principal payments of \$12 million with \$12 million due to be paid within 12 months of the balance sheet date. In order to protect the Group from currency risks arising on the CNY denominated debt, the Group has entered into CNY/US\$ cross currency swaps. This derivative instrument provides a hedge against any movement in the CNY exchange rate against the US dollar and swaps the interest basis from a CNY interest rate into a US\$ LIBOR interest basis. The fair value of the swap at 31 December 2016, included within payables, is \$21 million (31 December 2015: \$10 million).

The US dollar facility accrues interest at US\$ LIBOR plus 4.20%. At 31 December 2016, the \$1.3 billion facility was fully drawn following the receipt of \$250 million during the year (31 December 2015: \$1.1 billion). Arrangement fees with an amortised cost of \$15 million (31 December 2015: \$15 million), have been netted off against these borrowings in accordance with IAS 39.

### Pre-export finance facility ('PXF')

The PXF facility is repayable in equal monthly instalments over a three year period commencing from January 2016 until final maturity on 31 December 2018. The margin payable on the facility is variable, ranging from 3.00% to 4.50% above US\$ LIBOR, dependent on the ratio of net debt to EBITDA which will be tested semi-annually. KAZ Minerals PLC, Vostoksvetmet LLC and KAZ Minerals Sales Limited act as guarantors of the loan. On 28 October 2016, the PXF lenders agreed to a waiver of the facility's net debt to EBITDA covenant, which was to be tested at 31 December 2016, to 30 June 2017. In December 2016, an additional \$50 million was drawn under the accordion feature of the facility.

At 31 December 2016, \$281 million (31 December 2015: \$345 million) was drawn under the facility. Arrangement fees with an amortised cost of \$2 million (31 December 2015: \$4 million), have been netted off against these borrowings in accordance with IAS 39. \$116 million (2015: \$nil million) was repaid on the facility in 2016, with \$141 million due to be paid within 12 months of the balance sheet date.

### Development Bank of Kazakhstan ('DBK')

On 14 December 2016, the Group entered into a \$300 million credit facility with the DBK which was fully drawn by the end of the year. The facility extends for a term of eight and a half years and bears an interest rate of US\$ LIBOR plus 4.5%. The facility is repayable in instalments with the first repayment due in June 2018, followed by semi-annual repayments in May and November of each year from 2019 until 2024 and a final repayment in June 2025. The facility was drawn by KAZ Minerals Aktogay LLC, a Kazakhstan wholly owned subsidiary. KAZ Minerals PLC acts as guarantor of the facility.

At 31 December 2016, \$297 million was drawn under the facility. Arrangement fees with an amortised cost of \$3 million have been netted off against these borrowings in accordance with IAS 39.

### Revolving credit facility

On 14 August 2015, the Group entered into a \$50 million revolving credit facility provided by Caterpillar Financial Services (UK) Limited ('CAT'), a subsidiary of Caterpillar Inc. The CAT facility is available for three years from the date of signing, and is repayable in four equal quarterly instalments ending in 2019. An interest rate of US\$ LIBOR plus 4.25% is payable on amounts outstanding under the facility. The financial covenants under this facility are identical to those applicable to the Group's existing PXF facility. In November 2016, the lender agreed to a waiver of the net debt to EBITDA covenant, which was to be tested at 31 December 2016, to 30 June 2017. Certain Caterpillar equipment used at the Bozshakol and Aktogay operations have been pledged as collateral against the facility. During the year \$10 million was repaid. At 31 December 2016, the facility was fully drawn at \$40 million (31 December 2015: \$50 million). KAZ Minerals PLC acts as guarantor of the facility.

### Undrawn project and general and corporate purpose facilities

\$ million	2016	2015
CDB-Aktogay finance facility (within KAZ Minerals Finance PLC)	–	250



## 25. Employee benefits

Vostoktsvetmet LLC provides post-retirement benefits and other long-term benefits in Kazakhstan which are partially funded. The largest portion of the employee benefits provision is for other long-term benefits, of which the most significant is for 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	2016	2015
Employer's share of current service cost	—	—
Employer's share of past service cost	—	(1)
Actuarial losses recognised in the year	6	3
Interest cost on benefits obligation	1	2
	<b>7</b>	<b>4</b>

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

\$ million	2016	2015
Administrative expenses	6	2
Finance costs	1	2
	<b>7</b>	<b>4</b>

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

\$ million	2016	2015
At 1 January	16	24
Employer's share of current service cost	—	—
Employer's share of past service cost	—	(1)
Net actuarial losses arising in the income statement	6	3
Interest cost on benefit obligation	1	2
Benefits paid	(4)	(2)
Net exchange adjustment	—	(10)
<b>Defined benefit obligation at 31 December</b>	<b>19</b>	<b>16</b>

The movement in the plan asset is as follows:

\$ million	2016	2015
At 1 January	1	—
Contributions by employer	4	3
Benefits paid	(3)	(2)
<b>Fair value of plan assets at 31 December</b>	<b>2</b>	<b>1</b>

The net employee benefits obligation of \$18 million (2015: \$15 million), consists of \$5 million (2015: \$5 million) related to post-employment benefits and \$13 million (2015: \$10 million) related to other long-term benefits mainly for disability allowances.

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

\$ million	2016	2015
Defined benefit obligation	19	16
Less fair value of plan assets	2	1
<b>Net liability recognised at 31 December</b>	<b>17</b>	<b>15</b>
Current	2	2
Non-current	15	13
	<b>17</b>	<b>15</b>

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

	2016	2015
Discount rate at 31 December	6.5%	8.3%
Future salary increases	3.0%	3.8%
Medical and other related cost increases	4.5%	5.6%

In addition, mortality rates were determined with reference to the 2012 mortality table of Kazakhstan as published by the Government.

The Group continues to pay the non-monetary benefits described in note 8.

## 26. Provision for closure and site restoration

\$ million	2016	2015
At 1 January	9	15
Arising/(reversing) during the year <sup>1</sup>	47	(2)
Unwinding of discount	1	1
Net exchange adjustment	–	(5)
<b>At 31 December</b>	<b>57</b>	<b>9</b>

<sup>1</sup> In 2016, the amounts capitalised to property, plant and equipment and mining asset were \$25 million and \$17 million respectively (2015: reversal of \$2 million and \$nil) and \$5 million was expensed (2015: \$nil).

The costs of decommissioning and reclamation of mines and processing facilities within the Group are based on the current obligations under Kazakhstan and Kyrgyzstan legislation governing closure and rehabilitation. The provision represents the discounted values of the estimated costs to decommission and reclaim the mines based on the current estimated life of mine of each deposit. The present value of these provisions has been calculated using discount rates of 7.6% in Kazakhstan (2015: 8.8%) and 9.1% in Kyrgyzstan (2015: 10.3%). The liability usually becomes payable after the end of the useful life of each mine which ranges from three to 47 years. Uncertainties in estimating these costs include potential changes in regulatory requirements, decommissioning and reclamation alternatives, the levels of discount and inflation rates and the estimated timing of closure and decommissioning. The increase in the provision arose mainly from a review undertaken of the East Region operations in 2016 and is attributed to the impact of increased operations and updates to forecast cost estimates.

## 27. Other liabilities

\$ million	Payables to NFC	Payments for licences	Total
At 1 January 2015	–	11	11
Additions	–	–	–
Payments	–	(1)	(1)
Unwinding of discount	–	1	1
<b>At 31 December 2015</b>	<b>–</b>	<b>11</b>	<b>11</b>
Additions	276	–	276
Payments	–	(2)	(2)
Unwinding of discount	8	1	9
<b>At 31 December 2016</b>	<b>284</b>	<b>10</b>	<b>294</b>
Current	–	2	2
Non-current	284	8	292
<b>At 31 December 2016</b>	<b>284</b>	<b>10</b>	<b>294</b>
Current	–	2	2
Non-current	–	9	9
<b>At 31 December 2015</b>	<b>–</b>	<b>11</b>	<b>11</b>

### (a) Payables to NFC

On 17 November 2015, the Group reached an agreement with its principal construction contractor at Aktogay, NFC, to defer payment of \$300 million. Under these terms, \$300 million scheduled for payment in 2016 and 2017, was deferred for settlement in the first half of 2018, with \$250 million becoming payable shortly after 31 December 2017 and \$50 million shortly after 30 June 2018. The extended credit terms arising from the agreement were discounted using a rate of US\$ LIBOR plus 4.20% on the estimated cost of services. The discount rate applied is in line with the CBD Aktogay facility. The unwinding of the interest will be charged to property, plant and equipment as a borrowing cost (see note 11) until the date the sulphide plant has reached commercial production, after which it will be charged to the income statement within finance costs. At 31 December 2016, the full liability, discounted to its present value, was recognised.

### (b) Payments for licences for mining assets

In accordance with its contracts for subsoil use, the Group is liable to repay the costs of geological information provided by the Government of Kazakhstan for licenced deposits. Some of these obligations are payable in tenge while others are payable in US dollars, depending on the terms of each subsoil use contract. The total amount payable by the Group is discounted to its present value using a discount rate of 7.6% for tenge (2015: 8.8%) and 4.0% (2015: 5.1%) for US dollar obligations. Under the subsoil use agreements, the historical cost payments amortise over a ten year period and commence with first production. In the prior period, licence payment obligations were reflected within provisions due to uncertainty over the timing and amount of payment. In the current year, the level of uncertainty over the timing of payments has decreased following the commencement of production at Bozshakol and Aktogay and licence obligations are now reflected as other liabilities.

## 28. Trade and other payables

\$ million	2016	2015
Payables for non-current assets	100	101
Interest payable	66	57
Trade payables	29	13
Derivative instrument	21	10
Salaries and related payables	15	14
Amounts payable to related parties	3	5
Payables under social obligations	1	1
Other payables and accrued expenses	5	11
Payables regarded as financial instruments for disclosure purposes – note 31	240	212
Mineral extraction tax and royalties payable	49	25
Other taxes payable	9	5
Payments received in advance	11	12
	<b>309</b>	<b>254</b>

## 29. Reconciliation of profit before taxation to net cash inflow from operating activities

\$ million	Note	2016	2015
Profit before taxation		220	12
Interest income		(9)	(9)
Interest expense		45	23
Share-based payments	34	3	3
Depreciation, amortisation and depletion		84	52
Impairment losses	6	3	15
Unrealised foreign exchange (gain)/loss		(47)	55
Loss on disposal of assets		–	2
Gain on NFC deferral	5(d)	–	(16)
<b>Operating cash flows before changes in working capital and provisions</b>		<b>299</b>	<b>137</b>
Increase in non-current VAT receivable		(89)	(105)
Increase in inventories		(47)	(23)
Increase in prepayments and other current assets		(14)	(29)
(Increase)/decrease in trade and other receivables		(38)	74
Increase in employee benefits		2	–
Increase in provision for closure and site restoration		6	1
Increase/(decrease) in trade and other payables		1	(50)
<b>Cash flows from operations before interest and income taxes</b>		<b>120</b>	<b>5</b>

### Non-cash transactions

There were the following non-cash transactions:

- capitalised depreciation of \$19 million (2015: \$20 million) for property, plant and equipment and mining assets;
- capitalised interest of \$163 million (2015: \$132 million) for property, plant and equipment and mining assets;
- the reassessment of the provision for closure and site restoration during the year has resulted in an increase of \$25 million (2015: decrease of \$2 million) to property, plant and equipment and \$17 million (2015: \$nil) to mining assets, with a corresponding increase (2015: decrease) in the site restoration and clean up provisions.

### 30. Movement in net debt

\$ million	At 1 January 2016	Cash flow	Other movements <sup>1</sup>	At 31 December 2016
Cash and cash equivalents <sup>2</sup>	851	258	(1)	1,108
Current investments <sup>2</sup>	400	(400)	—	—
Borrowings	(3,504)	(273)	—	(3,777)
<b>Net debt</b>	<b>(2,253)</b>	<b>(415)</b>	<b>(1)</b>	<b>(2,669)</b>

\$ million	At 1 January 2015	Cash flow	Other movements <sup>1</sup>	At 31 December 2015
Cash and cash equivalents <sup>2</sup>	1,730	(887)	8	851
Current investments <sup>2</sup>	400	—	—	400
Borrowings	(3,092)	(409)	(3)	(3,504)
<b>Net debt</b>	<b>(962)</b>	<b>(1,296)</b>	<b>5</b>	<b>(2,253)</b>

<sup>1</sup> Other movements comprise net foreign exchange movements, non-cash amortisation of fees on borrowings and other non-cash reconciling items. Other movements on cash and cash equivalents arise primarily from currency movements on non-US dollar cash and cash equivalents. For the year ended 31 December 2016, the \$nil other movement on borrowings consists of \$9 million of amortisation of fees on the Group's financing facilities less \$9 million of foreign exchange differences on the CDB-Aktogay RMB facility. For the year ended 31 December 2015, the \$3 million other movement on borrowings consists of \$11 million of amortisation of fees on the Group's financing facilities less \$8 million of foreign exchange differences on the CDB-Aktogay RMB facility.

<sup>2</sup> Current investments at 31 December 2015 were bank term deposits. At 31 December 2016, all of the Group's gross liquid funds were cash and cash equivalents.

### 31. Financial risk management

The main risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. These risks arise from exposures that occur in the normal course of business and are managed by the Group's Treasury department in close cooperation with the Group's business divisions under oversight of a Treasury Committee, which is chaired by the Chief Financial Officer. The responsibilities of the Treasury Committee include the monitoring of financial risks, management of the Group's cash resources, debt funding programmes and capital structure, approval of treasury counterparties and relevant transaction limits, and oversight of all significant treasury activities undertaken by the Group. The Treasury department operates as a service centre to the business divisions of the Group and not as a profit centre.

A Group Treasury Policy has been approved by the Board and is periodically updated to reflect developments in the financial markets and the financial exposures facing the Group. The Treasury Policy covers specific areas of financial risk management, in particular, liquidity risk, credit risk, interest rate risk, foreign exchange risk and commodity price risk. The Group's Treasury Committee and the Group's Internal Audit department monitor compliance with the Treasury Policy on a regular basis.

The Group's Treasury department prepares monthly treasury reports for senior management which monitor all major financial exposures and treasury activities undertaken by the Group. In addition, a treasury report is prepared for each Board meeting which includes a summary of the credit markets and their impact on the implementation of the Group's strategy, progress on the Group's financing initiatives and the significant financial exposures faced by the Group.

The Group's principal financial instruments comprise borrowings, cash and cash equivalents, current investments and derivatives used for risk management purposes. The Group's borrowings, surplus liquidity and derivative financial instruments are controlled and managed centrally by the Group's Treasury department. Other than the proceeds of the DBK loan which was drawn and held in country temporarily over the year end, liquidity retained within Kazakhstan and Kyrgyzstan is only held for working capital purposes.

The Group's accounting policies with regard to financial instruments are detailed in note 35(u).

#### (a) Derivatives, financial instruments and risk management

The Group periodically uses derivative financial instruments to manage certain exposures to fluctuations in commodity prices, interest rates and exchange rates. The Group's philosophy is generally not to hedge its core revenue streams. In periods of significant market volatility or uncertainty, the Group may use derivative instruments as a means of reducing volatility and any negative impact on its operating cash flows. Limits on the size and type of any derivative hedge transaction are laid down by the Board and subject to strict internal controls.

### 31. Financial risk management continued

#### (b) Categories of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities by categories are as follows:

\$ million	Notes	2016	2015
<b>Loans and receivables:</b>			
Non-current investments <sup>1</sup>	17	2	2
Trade and other receivables	20	105	23
Current investments	21	–	400
Cash and cash equivalents	22	1,108	851
		<b>1,215</b>	1,276
<b>Financial liabilities measured at amortised cost:</b>			
Borrowings	24	(3,777)	(3,504)
Other liabilities	27	(294)	(11)
Trade and other payables <sup>2</sup>	28	(240)	(212)
		<b>(4,311)</b>	(3,727)

1 Long-term bank deposits.

2 Excludes payments received in advance, other taxes payable and MET and royalties payable that are not regarded as financial instruments.

#### (c) Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by a Group company in currencies other than that company's functional currency. The functional currency of the Kazakh entities within the Group is the Kazakhstan tenge, the Bozymchak project in Kyrgyzstan is the Kyrgyz som and KAZ Minerals Services Limited the UK sterling. The Company, the Group's main financing and holding companies and the Group's sales entities have a US dollar functional currency. The functional currency of the Group's intermediary project financing companies used for funding the Kazakhstan based development projects is the tenge. The currencies giving rise to this foreign currency risk are primarily the US dollar, the CNY and the Rouble. Exchange gains and losses arise principally from bank deposits, trade and other receivables, certain intercompany funding balances that exist within the Group and trade and other payables.

The Central Bank of Kazakhstan ended its management of the KZT/US\$ exchange rate within a stated trading range in August 2015 allowing the tenge to become a freely floating currency. As a result of this, any volatility in the tenge will result in volatility in the Group's earnings and net assets.

Where possible, the Group attempts to conduct its business, maintains its monetary assets and seeks to source corporate debt capital in US dollars to minimise its exposure to other currencies. The Group retains surplus cash balances in US dollars for capital expenditure, acquisitions and returns to shareholders. Working capital balances are maintained in a mix of US dollars and local currencies depending on the short-term requirements of the business. Whilst there is a strong correlation between many mining input costs and the US dollar, a significant portion of the business' operating costs are denominated in local currencies, particularly the Kazakhstan tenge. Rates of exchange for these currencies relative to the US dollar could fluctuate significantly and may materially impact the profitability of the underlying operations and the net assets of the Group.

The Group generally does not enter into hedging positions in respect of its exposure to foreign currency risk. From time to time, acquisitions and capital investments may expose the Group to movements in other currencies and the Group will consider hedging such exposures on a case-by-case basis.

To protect the Group from currency risks arising on the CDB Aktogay CNY denominated debt, the Group has entered into a CNY/US\$ cross currency swap. 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.



(i) Foreign currency exposure by company profile

The analysis in the table below of the net monetary assets and liabilities (including intercompany amounts) indicates the Group's exposure to currencies other than the functional currency of the related company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the income statement. As at 31 December 2016 and 2015 these exposures were as follows:

\$ million	US dollar	UK sterling	Euro	KZT	KGS	CNY	Other
<b>2016</b>							
Company	n/a	(82)	—	—	—	—	—
Vostoksvetmet LLC	143	—	—	n/a	—	—	—
KAZ Minerals Bozymchak LLC	(179)	—	—	—	n/a	—	—
KAZ Minerals Bozshakol LLC	21	—	(1)	n/a	—	—	—
KAZ Minerals Aktogay LLC	(307)	—	(2)	n/a	—	—	(1)
Other trading companies	(2)	—	—	n/a	—	—	2
Non-trading, holding or finance companies	3	4	—	—	—	(131)	2
	(321)	(78)	(3)	—	—	(131)	3

\$ million	US dollar	UK sterling	Euro	KZT	KGS	CNY	Other
<b>2015</b>							
Company	n/a	2	—	—	—	—	1
Vostoksvetmet LLC	63	—	—	n/a	—	—	—
KAZ Minerals Bozymchak LLC	(202)	—	—	—	n/a	—	—
KAZ Minerals Bozshakol LLC	3	—	(1)	n/a	—	—	—
KAZ Minerals Aktogay LLC	11	—	(1)	n/a	—	—	(1)
Other trading companies	3	1	—	n/a	—	—	1
Non-trading, holding or finance companies	102	1	—	1	—	(162)	—
	(20)	4	(2)	1	—	(162)	1

(ii) Foreign currency exposure by balance sheet account profile

The Group's exposure to foreign currency risk based on gross amounts is shown below:

\$ million	US dollar	UK sterling	Euro	KZT	CNY	Other	Total
<b>2016</b>							
Trade and other receivables	235	2	—	—	—	1	238
Cash and cash equivalents	327	4	—	—	—	3	334
Borrowings	(417)	(82)	—	—	(131)	—	(630)
Other liabilities	(291)	—	—	—	—	—	(291)
Trade and other payables	(175)	(2)	(3)	—	—	(1)	(181)
	(321)	(78)	(3)	—	(131)	3	(530)

\$ million	US dollar	UK sterling	Euro	KZT	CNY	Other	Total
<b>2015</b>							
Trade and other receivables	149	5	—	1	—	1	156
Cash and cash equivalents	66	1	1	—	—	5	73
Borrowings	(134)	—	—	—	(153)	—	(287)
Other liabilities	(7)	—	—	—	—	—	(7)
Trade and other payables	(94)	(2)	(3)	—	(9)	(5)	(113)
	(20)	4	(2)	1	(162)	1	(178)

### 31. Financial risk management continued

#### (c) Foreign exchange risk continued

##### (iii) Foreign currency sensitivity analysis

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2016. This sensitivity does not represent the income statement impact that would be expected from a movement in exchange rates over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% strengthening of the US dollar against the following currencies at 31 December would have changed profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015:

\$ million	Impact on profit	
	2016	2015
KZT	(14)	8
KGS	(18)	(20)
UK sterling	8	10
CNY	(13)	(16)

A 10% weakening of the US dollar against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### (d) Commodity price risk

The Group's mining revenues and earnings are directly impacted by fluctuations in the prices of the commodities it produces. The Group's principal commodities (copper, zinc, gold and silver) are priced via reference to global metal exchanges, upon which pricing is derived from global demand and supply and influenced by macroeconomic considerations and financial investment cash flows. The pricing of the Group's principal commodities may also include a pre-determined margin or discount depending on the terms of sales contracts. Commodity prices, particularly those derived from global metal exchanges, may fluctuate significantly and may have a material impact on the Group's financial results.

Management closely monitors the impact of fluctuations in commodity prices on the business and uses conservative pricing assumptions and sensitivity analysis for its forecasting and investment appraisals.

In accordance with IFRS 7, the impact of commodity prices has been determined based on the balances of financial assets and liabilities at 31 December 2016. This sensitivity does not represent the income statement impact that would be expected from a movement in commodity prices over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% increase/(decrease) in commodity prices after the period end would not have a material impact on profit/(loss) after tax (2015: \$nil). This analysis assumes that all other variables, in particular costs, remain constant and was performed on the same basis as 2015.

#### (e) Interest rate risk

The Group has financial assets and liabilities which are exposed to changes in market interest rates. Changes in interest rates primarily impact borrowings by changing their future cash flows (floating rate debt) or their fair value (fixed rate debt) and deposits. The Group's interest rate management policy is generally to borrow and invest at floating rates of interest. In some circumstances, an element of fixed rate funding may be considered appropriate. A limited amount of fixed rate hedging using interest rate swaps may be undertaken during periods where the Group's exposure to movements in short-term interest rates is more significant, or in periods when interest rates are perceived to be below long-term historical levels. At 31 December 2016, the Group had outstanding cross currency interest rate swaps on the CDB Aktogay facility of \$21 million (2015: \$10 million).

At 31 December 2016 and 2015 all borrowings were at floating rates. The exposure of the Group's financial assets and liabilities to interest rate risk is as follows:

\$ million	At 31 December 2016			
	Floating rate	Fixed rate	Non-interest bearing	Total
<b>Financial assets</b>				
Non-current investments	—	2	—	2
Trade and other receivables	—	—	105	105
Cash and cash equivalents	184	906	18	1,108
<b>Total financial assets</b>	<b>184</b>	<b>908</b>	<b>123</b>	<b>1,215</b>
<b>Financial liabilities</b>				
Borrowings	3,777	—	—	3,777
Other liabilities	—	294	—	294
Trade and other payables <sup>1</sup>	—	—	240	240
<b>Total financial liabilities</b>	<b>3,777</b>	<b>294</b>	<b>240</b>	<b>4,311</b>

\$ million	At 31 December 2015			
	Floating rate	Fixed rate	Non-interest bearing	Total
<b>Financial assets</b>				
Non-current investments	—	2	—	2
Trade and other receivables	—	—	23	23
Current investments	—	400	—	400
Cash and cash equivalents	275	550	26	851
<b>Total financial assets</b>	<b>275</b>	<b>952</b>	<b>49</b>	<b>1,276</b>
<b>Financial liabilities</b>				
Borrowings	3,504	—	—	3,504
Other liabilities	—	11	—	11
Trade and other payables <sup>1</sup>	—	—	212	212
<b>Total financial liabilities</b>	<b>3,504</b>	<b>11</b>	<b>212</b>	<b>3,727</b>

<sup>1</sup> Trade and other payables exclude payments received in advance, other taxes payable and MET and royalties payable that are not regarded as financial instruments.

The interest charged on floating rate financial liabilities is based on the relevant benchmark rate (such as LIBOR). Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

In accordance with IFRS 7, the impact of interest rates has been determined based on the balances of financial assets and liabilities at 31 December 2016. This sensitivity does not represent the income statement impact that would be expected from a movement in interest rates or outstanding borrowings over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. The effect on profit after tax of a 1% movement in US\$ LIBOR rates, based on the year-end net debt position and with all other variables held constant, is estimated to be \$28 million (2015: \$25 million).

#### (f) Credit risk

Exposure to credit risk arises as a result of transactions in the Group's ordinary course of business and is applicable to all financial assets and commitments due from third parties. The Group has adopted policies and procedures to control and monitor the distribution of these exposures to minimise the risk of loss in the event of non-performance by counterparties. The maximum exposure with respect to credit risk is represented by the carrying amount of each financial asset on the balance sheet.

##### Credit risk relating to trade receivables

Given the number and geographical spread of the Group's ultimate customers and the solvency of major trade debtors, credit risk is believed to be limited in respect of trade receivables. The Group regularly monitors its exposure to bad debts in order to minimise this exposure.

### 31. Financial risk management continued

#### (f) Credit risk continued

##### Credit risk relating to trade receivables continued

Customer credit risk is managed by each division but is subject to Group oversight to ensure that each division's customer credit risk management system operates in a prudent and responsible manner. Credit evaluations are performed for all major customers and credit limits are established based on internal or external rating criteria. The credit quality of the Group's significant customers is monitored on an ongoing basis, and receivables that are neither past due nor impaired are considered of good credit quality.

Letters of credit are obtained where customer credit quality is not considered strong enough for open credit.

Cash is received prior to delivery and transfer of title of the goods for sales to European customers. Sales to Chinese customers are predominantly made under letters of credit which are obtained prior to delivery and transfer of title of the goods. For all sales made to Chinese customers without letters of credit, cash is received prior to delivery and transfer of title of the goods.

Sales to European and Chinese customers are subject to provisional pricing and then final pricing adjustments. The Group is therefore exposed to the residual final pricing adjustment for each sales transaction although such amounts are not considered material in the context of the Group's overall revenues.

East Region may at times provide certain social services to municipal authorities in the communities in which it operates as part of its contractual obligations under its subsoil licences. For most receivable balances due from municipal authorities, if any, full provision is usually recognised in light of past payment history.

As at 31 December 2016, 10 (2015: 10) customers accounted for 94% (2015: 97%) of the trade and other receivables balance. By 17 February 2017, 86% (23 February 2016: 84%) of year-end balances due from these customers had been received in full.

#### (i) Risk for trade receivables by geographical regions

The maximum exposure to credit risk for trade receivables at 31 December by geographic areas was:

\$ million	2016	2015
Europe	6	2
China	81	9
Kazakhstan	18	12
	105	23

#### (ii) Impairment losses

The ageing of trade receivables at 31 December was:

\$ million	2016		2015	
	Gross	Impairment	Gross	Impairment
Not past due	79	–	22	–
Past due 0-90 days	24	–	1	–
Past due 91-180 days	–	–	–	–
Past due 181-270 days	–	–	–	–
More than 270 days	3	(1)	1	(1)
	106	(1)	24	(1)

The movement in the provision for impairment in respect of trade receivables during the year was as follows:

\$ million	2016	2015
At 1 January	1	1
Charged to income statement	–	2
Written off	–	(1)
Net exchange adjustment	–	(1)
At 31 December	1	1

##### Credit risk related to financial instruments

Credit risk relating to the Group's other financial assets, comprising principally cash and cash equivalents, current investments and derivative financial instruments, arises from the potential default of counterparties. Credit risk arising from balances with banks and financial institutions is managed by the Group's Treasury Committee in accordance with a Board approved Treasury Policy. The Group's cash management policies emphasise security and liquidity ahead of investment return. Investments of cash and deposits are made only with approved counterparties of high credit worthiness and within credit limits assigned to each counterparty. Exposures are measured against maximum credit limits assigned to each approved counterparty to ensure credit risk is effectively managed. The limits are set to minimise the concentration of risks and therefore mitigate any financial loss through potential counterparty failure.

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 Group must maintain a level of cash and deposits in Kazakhstan with local branches of international financial institutions and well established local Kazakhstan banks. The surplus funds in the UK are held primarily with major European and US financial institutions with minimum ratings of Standard & Poor's 'A-' and Moody's 'A3' and 'AAA' rated liquidity funds. These limits are reviewed on a regular basis to take account of developments in financial markets and updated accordingly.

No material exposure is considered to exist by virtue of the possible non-performance of the counterparties to derivative financial instruments.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2016	2015
Non-current investments	2	2
Trade and other receivables	105	23
Current investments	–	400
Cash and cash equivalents	1,108	851
	<b>1,215</b>	<b>1,276</b>

#### (g) Liquidity risk

The Group's objective is to maintain a balance between availability of funding and maximising investment return on its liquid resources through the use of liquid cash investments and debt facilities of varying maturities. Management regularly reviews the funding requirements of the Group in selecting appropriate maturities for its liquid cash investments.

The Group's policy is to centralise debt and surplus cash balances to the maximum extent possible.

#### Maturity of financial assets and liabilities

The table below analyses the Group's financial assets and liabilities, which will be settled on a gross basis, into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<b>2016</b>						
Borrowings <sup>1</sup>	–	(129)	(381)	(1,893)	(2,093)	(4,496)
Other liabilities <sup>2</sup>	–	(1)	(1)	(309)	–	(311)
Trade and other payables <sup>3</sup>	–	(240)	–	–	–	(240)
	–	(370)	(382)	(2,202)	(2,093)	(5,047)
Non-current investments	–	–	–	2	–	2
Trade and other receivables	–	105	–	–	–	105
Current investments	–	–	–	–	–	–
Cash and cash equivalents	288	820	–	–	–	1,108
	<b>288</b>	<b>925</b>	<b>–</b>	<b>2</b>	<b>–</b>	<b>1,215</b>
	<b>288</b>	<b>555</b>	<b>(382)</b>	<b>(2,200)</b>	<b>(2,093)</b>	<b>(3,832)</b>

\$ million	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
<b>2015</b>						
Borrowings <sup>1</sup>	–	(119)	(353)	(2,181)	(1,870)	(4,523)
Other liabilities <sup>2</sup>	–	–	(2)	(4)	(7)	(13)
Trade and other payables <sup>3</sup>	–	(212)	–	–	–	(212)
	–	(331)	(355)	(2,185)	(1,877)	(4,748)
Non-current investments	–	–	–	2	–	2
Trade and other receivables	–	23	–	–	–	23
Current investments	–	–	400	–	–	400
Cash and cash equivalents	301	550	–	–	–	851
	<b>301</b>	<b>573</b>	<b>400</b>	<b>2</b>	<b>–</b>	<b>1,276</b>
	<b>301</b>	<b>242</b>	<b>45</b>	<b>(2,183)</b>	<b>(1,877)</b>	<b>(3,472)</b>

<sup>1</sup> Borrowings include expected future interest payments based on contracted margins and prevailing LIBOR rates at the balance sheet date.

<sup>2</sup> Other liabilities are presented on an undiscounted gross basis.

<sup>3</sup> Trade and other payables exclude payments received in advance, other taxes payable and MET and royalties that are not regarded as financial instruments.



### 31. Financial risk management continued

#### (h) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

\$ million	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Non-current investments	2	2	2	2
Trade and other receivables	105	105	23	23
Current investments	—	—	400	400
Cash and cash equivalents	1,108	1,108	851	851
Borrowings	(3,777)	(3,842)	(3,504)	(3,748)
Other liabilities	(294)	(294)	(11)	(11)
Trade and other payables <sup>1</sup>	(240)	(240)	(212)	(212)
	(3,096)	(3,161)	(2,451)	(2,695)

<sup>1</sup> Trade and other payables exclude payments received in advance, other taxes payable and MET and royalties payable that are not regarded as financial instruments.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, current investments and trade and other receivables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments. They are classified as level 3 fair values in the fair value hierarchy.
- Other liabilities are discounted to their present value using the expected cash flows for the project and applicable discount rate for the individual country and are classified as level 3 in the fair value hierarchy.
- The fair value of borrowings is estimated by discounting future cash flows using rates currently available for debt of similar maturities. They are classified as level 3 fair values in the fair value hierarchy.

#### (i) Capital management

The over-riding objectives of the Group's capital management policy are to safeguard and support the business as a going concern through the commodity cycle, to maximise returns to shareholders (either through dividends or share buy-backs) and benefits to other stakeholders and to maintain an optimal capital structure in order to reduce the Group's cost of capital.

At 31 December 2016, total capital employed (which comprises equity holders' funds, non-controlling interests and borrowings) of the Group amounted to \$4,313 million, compared to \$3,826 million at 31 December 2015. Total capital employed is the measure of capital that is used by the Directors in managing capital.

At 31 December 2016, the Group is in a net debt position of \$2,669 million (2015: \$2,253 million).

The Group does not have a target debt/equity ratio, but has determined a maximum debt capacity based on a ratio of long-term 'normalised' EBITDA which the Board believes establishes a sustainable level of gearing through the commodity cycle. This ratio is reviewed in conjunction with market conditions and prevailing commodity prices in order to ensure an efficient capital structure that is balanced against the risks of carrying excessive leverage.

The Group manages net debt to ensure that it does not exceed two times 'normalised' EBITDA through the commodity cycle with flexibility to allow for up to 2.5 times during periods of major capital investment, where 'normalised' EBITDA excludes special items. In the medium term, following the Restructuring and during the development and ramp up of the Group's major projects, when a higher net debt to EBITDA ratio is expected, the Group has suspended this internal ratio. Included within the debt facilities are financial covenants related to maximum borrowing levels of the Group (determined by reference to net debt to EBITDA and debt to equity ratios), minimum tangible net worth of individual Group entities and consolidated gross assets to gross liabilities ratios, for which compliance certificates are produced. All financial covenants were fully complied with during the year and up to the date of approval of the financial statements. As discussed in note 2(a) to the consolidated financial statements and in the viability statement, the Group is currently in negotiations with the PXF banks over the various amendments to the terms of these loans as certain covenants may be in breach in June 2017.

## 32. Commitments and contingencies

### (a) Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The Directors believe that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Group. As of 31 December 2016 and 2015, the Group was not involved in any significant legal proceedings, including arbitration, which may crystallise a financial loss for the Group.

### (b) Kazakhstan and Kyrgyzstan taxation contingencies

#### (i) Inherent uncertainties in interpreting tax legislation

The Group is subject to uncertainties relating to the determination of its tax liabilities and the timing of recovery of tax refunds. Kazakhstan and Kyrgyzstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. The Directors' interpretation of tax legislation as applied to the transactions and activities of the Group may not coincide with that of the tax authorities. As a result, the tax authorities may challenge transactions and the Group may be assessed with additional taxes, penalties and fines or refused refunds, which could have a material adverse effect on the Group's financial performance or position.

#### (ii) Tax audits

Historical tax years relating to various companies within the Group remain open for inspection during a future tax audit. Consequently, the tax figures recorded in the financial statements for these years may be subject to change.

The tax authorities in Kazakhstan are able to raise additional tax assessments for five years after the end of the relevant tax period in respect of all taxes, except for excess profits tax. In respect of excess profits tax, they are able to raise additional tax assessments for five years after the expiration of the terms of the relevant subsoil contract. In Kyrgyzstan, tax authorities are able to raise additional tax assessments for a period of six years after the end of the relevant tax period.

#### (iii) Transfer pricing

The Kazakhstan transfer pricing legislation provides clarity on various aspects of transfer pricing, including the use of LME and LBMA prices as the basis of market prices, quotation periods to be used for the sale and purchase of traded commodities and the acceptability of discounts with reference to LME/LBMA prices when transacting in traded commodities. Notwithstanding these amendments, the Directors have recognised a provision for the amounts that represent the Directors' best estimate of the probable cash payments that will be required to settle any residual transfer pricing exposures based on the Directors' interpretation of the transfer pricing legislation and the prevailing status of discussions with the tax authorities. The risk remains that the tax authorities may take a different position with regard to the interpretation of the transfer pricing legislation, and amendments thereof, and the outcome of discussions with the Kazakhstan tax authorities may be materially different from the Directors' expectations.

#### (iv) Possible additional tax liabilities

The Directors believe that the Group is in substantial compliance with the tax laws promulgated in Kazakhstan and Kyrgyzstan and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional material tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law (inclusive of corporate income taxes, value added tax and subsoil use legislation).

The resulting effect of any positions taken by the tax authorities that differ from those of the Directors is that additional tax liabilities may arise or the timing of refunds due may take longer than expected or may be refused. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities and the timing of refunds, it is not practical for the Directors to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Group may be liable.

### (c) Environmental contingencies

Environmental regulations, including emissions legislation, in Kazakhstan and Kyrgyzstan are continually evolving. The outcome of environmental regulations under proposal or any future environmental legislation cannot be reliably estimated at present. As obligations are determined, they will be provided for in accordance with the Group's accounting policies. The Directors believe that there are no significant liabilities under current legislation not accrued for in the Group's consolidated financial statements however they recognise that the environmental regulators in Kazakhstan and Kyrgyzstan may take a differing position with regard to the interpretation of environmental legislation. The resulting effect is that additional environmental liabilities may arise however, due to the range of uncertainties, it is not practical for the Directors to estimate any further potential exposures.

The provision that has been made for costs associated with restoration and abandonment of mine sites upon depletion of deposits (see note 26), is based upon the estimation of the Group's specialists. Where events occur that change the level of estimated future costs for these activities, the provision will be adjusted accordingly.

### (d) Use of subsoil and exploration rights

In Kazakhstan, all subsoil reserves belong to the State, with the Ministry of Investments and Development (the 'Ministry') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Group does not satisfy its contractual obligations.

## 32. Commitments and contingencies continued

### (d) Use of subsoil and exploration rights continued

In the Kyrgyz Republic, all subsoil reserves belong to the State, with the State Agency for Geology and Mineral Resources of the Kyrgyz Republic (the 'competent body') granting exploration and production rights to third party bodies. Subsoil and exploration rights are not granted in perpetuity, and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the competent body if the Company does not satisfy its contractual obligations.

### (e) Capital expenditure commitments

The Group has capital expenditure commitments for the purchase of property, plant and equipment as well as commitments under its mining subsoil agreements. Committed expenditure under the subsoil agreements typically relates to investments in community-related projects, and includes investments in social sphere assets, infrastructure and public utilities. The total commitments for property, plant and equipment as at 31 December 2016 amounted to \$109 million (2015: \$634 million).

### (f) Operating lease commitments

The operating lease expense for the year was \$3 million (2015: \$2 million). At 31 December 2016 and 2015, the Group had the following total commitments under non-cancellable operating leases:

\$ million	2016	2015
Within one year	4	2
After one year but not more than five years	11	6
More than five years	3	1
	18	9

## 33. 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, including Cuprum Holding, are disclosed below.

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

\$ million	Sales to related parties	Purchases from related parties	Amounts owed by related parties <sup>1</sup>	Amounts owed to related parties
<b>Cuprum Holding and related entities</b>				
<b>2016</b>	<b>4</b>	<b>95</b>	<b>2</b>	<b>3</b>
2015 <sup>2</sup>	23	168	14	5

<sup>1</sup> No provision is held against the amounts owed by related parties at 31 December 2016 and 2015. The bad debt expense in relation to related parties was \$nil for the year (2015: \$1 million).

<sup>2</sup> Purchases from related parties include \$28 million of cathode produced by Kazakhmys LLC (part of the Disposal Assets).

### Cuprum Holding and the Disposal Assets

The majority of the related party transactions and balances are with companies which are part of the Cuprum Holding Group (a company owned by Vladimir Kim, a Director of the Company, and Eduard Ogay, a former Director of the Company) and provided under two Framework Service Agreements. These include the provision of smelting and refining of the Group's copper concentrate, electricity supply and certain maintenance functions.

### (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.

## 34. Share-based payment plans

The Company's share-based payment plans consist of a Long Term Incentive Plan ('LTIP'), and a Deferred Share Bonus Plan ('DSBP'). The total expense for the year ended 31 December 2016 arising from these plans was \$3 million (2015: \$3 million). The total number of shares outstanding under these schemes as at 31 December 2016 was 3,671,335 (2015: 3,214,305). The total number of shares exercisable under these schemes as at 31 December 2016 was 204,270 (2015: 190,643).

These plans are discretionary benefits offered by the Company for the benefit of its employees. The main purpose is to increase the interest of the employees in KAZ Minerals' long-term business goals and performance through share ownership. They represent incentives for employees' future performance and commitment to be aligned to the goals of the Group. For future awards, the Company may issue new shares or use shares held as treasury by the Company, subject to shareholder approval, rather than purchase the shares in the open market through the Employee Benefit Trust.

## 35. Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied across the Group.

### (a) Foreign currency translation

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. Transactions in currencies other than the functional currency are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains and losses on settlement of foreign currency transactions translated at the rate prevailing at the date of the transactions, or the translation of monetary assets and liabilities at period end exchange rates, are taken to the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction.

The functional currency of the Company, the Group's main financing and holding companies and KAZ Minerals Sales Limited is the US dollar as the majority of the operating activities are conducted in US dollars. The functional currency of the Group's Kazakh entities and their UK based project finance companies, as applicable, is the Kazakhstan tenge, with the Bozymchak project's functional currency being the Kyrgyz som. On consolidation, income statements of subsidiaries are translated into US dollars, at average rates of exchange. Balance sheet items are translated into US dollars at period end exchange rates. Exchange differences on the retranslation are taken to a separate component of equity.

The following foreign exchange rates against the US dollar have been used in the preparation of the consolidated financial statements:

	31 December 2016		31 December 2015	
	Spot	Average	Spot	Average
Kazakhstan tenge	333.29	342.16	339.47	221.73
Kyrgyz som	69.23	69.88	75.90	64.44
UK pounds sterling	0.80	0.74	0.68	0.65

### (b) Business combinations

The Group applies the purchase method to account for business combinations. On the acquisition of a subsidiary, the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair values at the date of acquisition. Those mining rights, mineral reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and mineral rights, for which, in the Directors' opinion, values cannot be reliably determined, are not recognised.

The consideration transferred (cost of acquisition) is the aggregate of: (a) the fair values at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group; and (b) the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred in the income statement.

When the cost of acquisition exceeds the fair value attributable to the Group's share of the identifiable net assets, the difference is treated as purchased goodwill.

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed and recognises any additional assets or liabilities that are identified in that review. If that excess remains after reassessment, the Group recognises the resulting gain in the income statement on the acquisition date.

When a subsidiary is acquired in a number of stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

Similar procedures are applied in accounting for the purchases of interests in associates and joint ventures. Any goodwill arising on such purchases is included within the carrying amount of the investment in the associate, but not thereafter amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is included in the income statement in the period of the purchase.

### (c) Intangible assets

#### (i) Non-mining intangible assets

Non-mining intangible assets relate largely to software purchases, which are acquired by the Group and which have finite useful lives, are stated at cost (which comprises purchase price plus any directly attributable costs of preparing the asset for intended use) less accumulated amortisation and impairment losses. The cost of intangible assets acquired in a business combination is its fair value which can be measured reliably as at the date of acquisition.

#### (ii) Amortisation

Amortisation of intangible assets, which have expected useful lives of three to 10 years, is computed under the straight-line method over the estimated useful lives of the assets.

### (d) Property, plant and equipment

#### (i) Initial measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

## 35. Summary of significant accounting policies continued

### (d) Property, plant and equipment continued

#### (i) Initial measurement continued

Costs which are necessarily incurred and revenues earned whilst commissioning new assets, in the period before they are capable of operating in the manner intended by management, are capitalised. For mining and processing facility assets, this requires judgement based on the facts and circumstances of the operation and is considered to be when these assets have reached commercial levels of production. Commercial production represents production in reasonable commercial quantities and refers to the level of output and not profit or loss and is generally considered to have been achieved when the operation is consistently operating at over 60% of its intended capacity for a sustained period of around three months.

#### (ii) Depreciation

The cost of each item of property, plant and equipment is depreciated over its useful life to its estimated residual value. Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives and residual values are made on a regular basis for all mine buildings, plant and equipment, with annual reassessments for major items. Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual asset to its estimated residual value or on a unit of production basis depending on the type of asset.

The unit of production method is the ratio of commodity production in the period to the estimated quantities of commercial reserves over the life of the mine (using proven and probable mineral reserves as determined by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 ('JORC Code') on an annual basis) based on the estimated economically recoverable reserves to which they relate. Changes in estimates, which affect unit of production calculations, are accounted for prospectively.

Depreciation commences on the date the assets are ready for use within the business. Freehold land is not depreciated.

The expected useful lives are as follows:

- Buildings 15-40 years
- Plant and equipment 4-25 years
- Other 3-15 years

#### (iii) Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

Construction in progress is not depreciated.

#### (iv) Repairs and maintenance

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Repairs and maintenance expenditure, including major overhauls which are infrequent, is capitalised if additional future economic benefits will arise from the expenditure. All other repairs and maintenance expenditure is recognised in the income statement as incurred.

#### (v) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor and not transferred to the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

### (e) Mining assets

#### (i) Mineral licences and properties

Costs of acquiring mineral licences and properties are capitalised on the balance sheet in the year in which they are incurred. Costs associated with a start-up period for significant developments are capitalised during the commissioning period (development expenditure) where the asset is incapable of operating at normal levels without a commissioning period. Mineral licences and properties are amortised over the remaining life of the mine using a unit of production method.

#### (ii) Mine development costs

Mine development costs are incurred to obtain access to proved reserves or mineral-bearing ore deposits and to provide facilities for extracting, lifting and storing minerals. Such costs are, upon commencement of production, amortised over the remaining life of the mine using a unit of production method.

#### (iii) Mine stripping costs

Mine stripping costs incurred in order to access the mineral-bearing ore deposits are deferred prior to the commencement of production. Such costs are amortised over the remaining life of the mine using a unit of production method.

The ongoing mining and development of the open pit mines is generally performed via a succession of individual phases. The costs of extracting material from an open pit mine are generally allocated between ore and waste stripping in proportion to the tonnes of material extracted. The waste stripping costs are generally absorbed into inventory and expensed as that inventory is processed and sold. Where the stripping costs relate to a significant stripping campaign which is expected to provide improved access to an identifiable component of the ore body (typically an individual phase within the overall mine plan), the costs of removing waste in order to improve access to that part of the ore body will be capitalised within mining assets. The capitalised costs will then be amortised in a systematic manner over the reserves that directly benefit from the specific stripping activity.



#### (iv) Exploration and evaluation costs

Exploration and evaluation expenditure for each area of interest once the legal right to explore has been acquired, other than that acquired through a purchase transaction, is carried forward as an asset, within mining assets, provided that one of the following conditions is met:

- such costs are expected to be recouped through successful exploration and development of the area of interest or, alternatively, by its sale.
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off. Administrative and general expenses relating to exploration and evaluation activities are expensed as incurred.

Identifiable exploration and evaluation assets acquired in a purchase transaction are recognised as assets at their cost, or fair value if purchased as part of a business combination. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Exploration and evaluation assets transferred to mine development costs when attributable to producing interests are amortised on a unit of production basis over the remaining life of the associated mine.

#### (f) Impairment

The carrying values of mining assets including capitalised exploration and evaluation expenditure and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount.

Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

#### (i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. This is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Group's cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### (ii) Reversals of impairment

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised for the asset in prior years. Such reversals are recognised in the income statement. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in the recoverable amount.

#### (g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. Cost is determined on the following bases:

- Raw materials and consumables are valued at cost on a first-in, first-out (FIFO) basis; and
- Work in progress and finished goods are valued at the cost of production, including the appropriate proportion of depreciation, labour and overheads based on normal operating capacity. The cost of work in progress and finished goods is based on the weighted average cost method.

Net realisable value represents estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion and disposal.

Inventory, usually stockpiled ore that has been extracted and is expected to be further processed 12 months after the balance sheet date, is included within non-current assets.

## 35. Summary of significant accounting policies continued

### (h) Trade and other receivables

Trade and other receivables do not generally carry any interest and are normally stated at their nominal value less any impairment. Impairment losses on trade receivables are recognised within an allowance account unless the Group considers that no recovery of the amount is possible, in which case the carrying value of the asset is reduced directly.

### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits held on call or with maturities which on inception are within the expected working capital profile of the Group and highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

### (j) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

### (k) Employee benefits

#### (i) Long-term employee benefits

The Group's entities located in Kazakhstan remit contributions to defined contribution pension plans on behalf of its employees. Contributions to be paid by the Group are withheld from employees' salaries and are recognised as part of the salary expense in the income statement as incurred.

The Group's defined benefit plans, including the death and disability plans for current and former employees, are accounted for in accordance with IAS 19 'Employee Benefits (Revised)', such that the plan liabilities and assets are measured by actuarial valuations using the projected unit credit method.

The future benefit that employees have earned is discounted to determine the present value. The discount rate is determined by reference to the US Treasury bond rate adjusted for country specific inflation and risk. The treasury bond used approximates to the average maturity profile of the Group's benefit obligations. The calculation is performed by a qualified independent actuary on a rotational basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise for defined benefit plans not considered to be other long-term employee benefits. In respect of other long-term employee benefit plans, namely the Group's disability benefits obligation, all actuarial gains and losses are recognised in the income statement in the period in which they arise. The expense in relation to all long-term employee benefits is charged to the income statement so as to match the cost of providing these benefits to the period of service of the employees.

#### (ii) Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The cost of equity-settled transactions with employees is measured at fair value at the date at which they are granted. The fair value of share awards with market-related vesting conditions is determined using the Monte Carlo method and the fair value at the grant date is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest.

The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

### (l) Own shares

Own equity instruments which are re-acquired either by the Employee Benefit Trust for the purposes of the Group's employee share-based payment plans or by the Company as part of any share buy-back programmes are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid to acquire such equity instruments is recognised within equity.

### (m) Social responsibility costs

The Group contributes towards social programmes for the benefit of the local community at large. The Group's contributions towards these programmes are expensed to the income statement at the point when the Group is committed to the expenditure.

### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### (i) Site restoration costs

Site restoration provisions are made in respect of the estimated future costs of closure and restoration, and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted where material and the unwinding of the discount is included in finance costs. Over time, the discounted provision is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. At the time of establishing the provision, a corresponding asset is capitalised where it gives rise to a future benefit and depreciated over the remaining

life of the mine to which it relates using a unit of production method. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or life of operations. Any change in restoration costs or assumptions will be recognised as additions or charges to the corresponding asset and provision when they occur. For permanently closed sites, changes to estimated costs are recognised immediately in the income statement.

**(ii) Other**

Other provisions are accounted for when the Group has a legal or constructive obligation for which it is probable there will be an outflow of resources and for which the amount can be reliably estimated.

**(o) Revenue**

Revenue represents the value of goods and services supplied to third parties during the year. Revenue is measured at the fair value of consideration receivable, and excludes any applicable sales tax. MET is included within cost of sales.

All revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when title and any insurance risk has passed to the customer and the goods have been delivered in accordance with the contractual delivery terms or when any services have been provided.

Prior to assets operating in the manner as intended by management, revenue is capitalised within property, plant and equipment. When those assets are operating in the manner intended which is considered when commercial levels of production are achieved, revenue is recognised in the income statement.

Almost all sales agreements for copper cathodes and copper concentrate, zinc concentrate and silver are provisionally priced (i.e. the selling price is subject to final adjustment at the end of a quotation period, typically the average price either for the month of or the month following or two months following delivery to the customer), based on the LME market price for the relevant quotation period stipulated in the contract. Such a provisional sale contains an embedded derivative which is required to be separated from the underlying host contract, being the sale of the commodity. At each reporting date, the provisionally priced metal sales are marked-to-market using forward prices, with adjustments (both gains and losses) being recorded in revenue in the income statement and in trade receivables or trade payables on the balance sheet.

**(p) Finance income**

Finance income comprises interest income on funds invested and foreign exchange gains. Interest income is recognised as it accrues, calculated in accordance with the effective interest rate method.

**(q) Finance costs**

Finance costs comprise interest on borrowings which are not capitalised under the borrowing costs policy (see 35(r) below), the unwinding of interest costs on provisions and foreign exchange losses.

**(r) Borrowing costs**

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalised and added to the project cost during construction until such time as the assets are considered substantially ready for their intended use, i.e. when they are capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short period of time from money borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the year. All other borrowing costs are recognised in the income statement in the period in which they are incurred using the effective interest rate method.

Borrowing costs that represent avoidable costs not related to the financing arrangements of the development projects and are therefore not directly attributable to the construction of these respective assets are expensed in the period as incurred. These borrowing costs generally arise where the funds are drawn down under the Group's financing facilities, whether specific or general, which are in excess of the near term cash flow requirements of the development projects for which the financing is intended, and the funds are drawn down ahead of any contractual obligation to do so.

**(s) Income tax**

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Excess profits tax is treated as income tax and forms part of the income tax expense.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- those arising on the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit; and
- investments in subsidiaries where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### **35. Summary of significant accounting policies continued**

#### **(s) Income tax continued**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **(t) Dividends**

Dividends are recognised as a liability in the period in which they are approved by shareholders. Dividends receivable are recognised when the Group's right to receive payment is established.

#### **(u) Financial instruments**

The Group recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

##### **(i) Financial assets**

###### **Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in the income statement.

The Group's financial assets include cash and short-term investments, trade and other receivables, loans and other receivables, non-current deposits held for closure, and derivative financial instruments.

The Group's most significant financial assets, within the scope of IAS 39, are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are typically loans and receivables created by the Group in providing money to a debtor.

###### **Subsequent measurement**

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method ('EIR'). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. Allowance for impairment is estimated on a case-by-case basis.

###### **Derecognition**

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered.

###### **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

##### **(ii) Financial liabilities**

###### **Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

The Group's most significant financial liabilities, within the scope of IAS 39, are classified as loans and borrowings.

###### **Subsequent measurement**

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method after initial recognition. Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

## Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### (u) Financial instruments continued

#### (iii) Derivative financial instruments

Where the Group enters into derivative contracts that are not hedging instruments in hedge relationships as defined by IAS 39, these are carried in the balance sheet at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would have been expected.

#### (iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### (v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in note 31(h).



### 36. Company financial statements

#### (a) Company balance sheet

\$ million	Notes	2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	36(e)	3,352	1,883
Deferred tax asset		1	1
		<b>3,353</b>	<b>1,884</b>
<b>Current assets</b>			
Prepayments and other current assets		2	2
Intercompany loan	36(f)	42	66
Trade and other receivables	36(g)	3	3
Cash and cash equivalents	36(j)	—	1
		<b>47</b>	<b>72</b>
<b>Total assets</b>		<b>3,400</b>	<b>1,956</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	23(a)	171	171
Share premium		2,650	2,650
Capital reserves	36(h)	30	27
Retained earnings		465	(993)
<b>Total equity</b>		<b>3,316</b>	<b>1,855</b>
<b>Current liabilities</b>			
Trade and other payables	36(i)	2	2
Intercompany payables	36(l)	82	99
<b>Total liabilities</b>		<b>84</b>	<b>101</b>
<b>Total equity and liabilities</b>		<b>3,400</b>	<b>1,956</b>

These financial statements were approved by the Board of Directors on 22 February 2017.

Signed on behalf of the Board of Directors

**Oleg Novachuk**

Chief Executive Officer

**Andrew Southam**

Chief Financial Officer

**(b) Company statement of cash flows**

\$ million	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		1,460	(1,576)
Share-based payments		2	2
Impairment (reversal)/loss	36(e)	(1,468)	1,552
Unrealised foreign exchange gain		(17)	–
Operating cash flows before changes in working capital		(23)	(22)
Decrease in trade and other receivables		–	11
Cash flows from operations before interest, income taxes and dividends received		(23)	(11)
Income taxes paid		–	(6)
<b>Net cash flows used in operating activities</b>		<b>(23)</b>	<b>(17)</b>
<b>Cash flows from investing activities</b>			
Amounts repaid under intercompany loans		23	18
Capital contributions into subsidiary undertakings	36(e)	(1)	–
<b>Net cash flows from investing activities</b>		<b>22</b>	<b>18</b>
Net (decrease)/increase in cash and cash equivalents	36(j)	(1)	1
Cash and cash equivalents at the beginning of year	36(j)	1	–
<b>Cash and cash equivalents at the end of year</b>	36(j)	<b>–</b>	<b>1</b>

**(c) Company statement of changes in equity**

\$ million	Share capital	Share premium	Capital reserves <sup>1</sup>	Retained earnings	Total equity
At 1 January 2015	171	2,650	21	586	3,428
Total comprehensive expense for the year	–	–	–	(1,576)	(1,576)
Share-based payments	–	–	–	3	3
Employee share awards exercised	–	–	6	(6)	–
At 31 December 2015	171	2,650	27	(993)	1,855
Total comprehensive income for the year	–	–	–	1,459	1,459
Share-based payments	–	–	–	2	2
Employee share awards exercised	–	–	3	(3)	–
<b>At 31 December 2016</b>	<b>171</b>	<b>2,650</b>	<b>30</b>	<b>465</b>	<b>3,316</b>

<sup>1</sup> Refer to note 36(h) for an analysis of 'Capital reserves'.

**(d) Company accounting policies**

**Basis of preparation**

The KAZ Minerals PLC parent company balance sheet, statement of cash flows, statement of changes in equity and related notes have been prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006. The financial information has been prepared on a historical cost basis. These financial statements have been prepared on a going concern basis (see note 2(a)).

The functional currency of the Company and the presentational currency adopted is US dollars.

**Principal accounting policies**

The principal accounting policies are consistent with those applied in the consolidated financial statements (refer to notes 2 and 35) except for the additional accounting policy relating to non-current investments set out below. There were no changes to the accounting policies during the year.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Although these estimates are based on management's best knowledge of the amount, event or actions, following implementation of these standards, actual results may differ from those estimates.

**Non-current investments**

Non-current investments are held at cost. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount. Any positive change in the amount or timing of estimated future cash flows or in the discount rate such that fair value of the Company's investments increases, consideration will be given to whether previously recognised impairments should be reversed.

### 36. Company financial statements continued

#### (e) Company non-current investments

\$ million	2016	2015
<b>Cost</b>		
At 1 January	7,829	7,728
Additions	1	101
<b>At 31 December</b>	<b>7,830</b>	<b>7,829</b>
<b>Provision for impairment</b>		
At 1 January	5,946	4,394
Impairment (reversals)/charges	(1,468)	1,552
<b>At 31 December</b>	<b>4,478</b>	<b>5,946</b>
<b>Net book value</b>	<b>3,352</b>	<b>1,883</b>

#### (i) KAZ Minerals Investments Limited

In 2016, the successful achievement of commercial production at the Bozshakol sulphide and Aktogay oxide plants, the earlier than expected commissioning of the Aktogay sulphide plant and the material improvement in the near term outlook for copper led to a reassessment of the carrying value of the Company's previously impaired investments. The estimated fair value less cost to sell of the Group's investment exceeded their carrying value and a reversal of impairment of \$1,468 million was recognised. The fair value less cost to sell is supported by a range of internal valuations that were prepared using discounted cash flow models using assumptions relating to short, medium and long-term pricing and other assumptions based on the Group's expectations of the assets. The internal valuation range and the revised carrying value of the Company's investment is also supported by a range of recent equity analyst valuations. In 2015, as a result of a decline in short and medium-term commodity price expectations, the value of the Group's underlying assets had fallen such that the carrying values of these investments were above their estimated fair value less costs to sell, and an impairment charge of \$1,552 million was recognised. Following the impairment, the carrying value was supported by a range of internal valuations that were prepared using a discounted cash flow model using assumptions relating to short, medium and long-term pricing and other assumptions based on the Group's expectations of the assets. The internal valuation range was outside the range of analyst valuations at the time as these applied discounts for perceptions relating to project execution risk on delivery of the Group's major projects and near term liquidity risks. The Group believed that these discounts were excessive given the status and low cost profile of the projects. On removal of the applied discount factors, the carrying value of the investments, following the impairment, fell within the range of the adjusted equity analyst values.

The determination of the fair value less costs to sell, as estimated in 2016 and 2015, is subject to the key sources of estimation uncertainty as disclosed in note 3.

#### (ii) KAZ Minerals Services Limited

In 2016, an additional investment of \$1 million (2015: \$1 million) relating to capital contributions made by the Company to KAZ Minerals Services Limited was recognised in respect of the share awards issued by the Company on behalf of employees of KAZ Minerals Services Limited.

#### (iii) KAZ Minerals Finance PLC

During 2015, the Company waived \$100 million of the intercompany loan receivable due from KAZ Minerals Finance PLC as a capital contribution to KAZ Minerals Finance PLC.

#### (iv) Other companies

The Company holds its interests in other subsidiaries in the Group either directly or via intermediate holding companies for those businesses in Central Asia.

#### (f) Company intercompany loan

The intercompany loan receivable comprises \$26 million due from KAZ Minerals Finance PLC (2015: \$50 million) and \$16 million (2015: \$16 million) from KAZ Minerals Sales Limited and has been advanced by the Company for general corporate purposes. These balances are repayable on demand. The loan to KAZ Minerals Finance PLC bears interest at US\$ LIBOR minus 10 bps while the KAZ Minerals Sales Limited loan is interest free. At 31 December 2016, interest receivable of \$3 million (2015: \$3 million) had accrued on this loan balance and is included within trade and other receivables (note 36(g)).

#### (g) Company trade and other receivables

\$ million	2016	2015
Intercompany receivables	3	3
	3	3

#### (h) Company capital reserves

\$ million	Capital redemption reserve	Employee Benefit Trust shares	Total
At 1 January 2015	31	(10)	21
Own shares issued upon exercise of options	—	6	6
At 31 December 2015	31	(4)	27
Own shares issued upon exercise of options	—	3	3
<b>At 31 December 2016</b>	<b>31</b>	<b>(1)</b>	<b>30</b>

#### (i) Capital redemption reserve

As a result of the share buy-back programme undertaken in 2008 and the re-purchase of KAZ Minerals PLC 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.

#### (ii) Employee Benefit Trust shares

The share reserve represents the cost of the Company's shares purchased by the Employee Benefit Trust to satisfy the share options awarded under the Company's share-based payment schemes.

#### (i) Company trade and other payables

\$ million	2016	2015
Salaries and related payables	2	2
	2	2

#### (j) Company movement in net liquid funds

\$ million	At 1 January 2016	Cash flow	At 31 December 2016
Cash and cash equivalents	1	(1)	—
<b>Net liquid funds</b>	<b>1</b>	<b>(1)</b>	<b>—</b>

\$ million	At 1 January 2015	Cash flow	At 31 December 2015
Cash and cash equivalents	—	1	1
<b>Net liquid funds</b>	<b>—</b>	<b>1</b>	<b>1</b>

#### (k) Company financial risk management

The Company, as a holding company, has exposure to foreign exchange risk and limited exposure to credit and interest rate risks. These are shown below. The Company has no exposure to commodity or price risks.

#### (i) Foreign exchange risk

The Company has transactional currency exposures principally arising from transactions relating to corporate costs which are denominated in currencies other than the Company's functional currency, being the US dollar. Corporate costs are primarily denominated in UK sterling. The Company is exposed to foreign exchange risk on its obligation to KAZ Minerals Services Limited, as it is payable in UK pound sterling. During 2016, a foreign exchange gain of \$17 million was recognised on this liability following the depreciation of UK pound sterling in June. The Company generally does not enter into hedging positions in respect of its exposure to foreign currency risk.

#### (ii) Credit risk

Credit risk for the Company relates to cash and cash equivalents. Balances within intercompany loans and trade and other receivables mostly relate to amounts owed by Group undertakings resulting in reduced credit risk for these balances.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

\$ million	2016	2015
Intercompany loans	42	66
Trade and other receivables	3	3
Cash and cash equivalents	—	1
	45	70

The exposure to credit risk for intercompany loans and trade and other receivables at 31 December 2016 and 2015 by geographic areas was all European.

### 36. Company financial statements continued

#### (I) Company related party disclosures continued

##### (iii) Interest rate risk

The Company has limited balances subject to interest rate risk. The exposure of the Company's financial assets and liabilities to interest rate risk is as follows:

\$ million	At 31 December 2016			
	Floating rate	Fixed rate	Non-interest bearing	Total
<b>Financial assets</b>				
Intercompany loans	26	—	16	42
Trade and other receivables	—	—	3	3
<b>Total financial assets</b>	<b>26</b>	<b>—</b>	<b>19</b>	<b>45</b>
<b>Financial liabilities</b>				
Trade and other payables	—	—	(2)	(2)
Intercompany payables	—	—	(82)	(82)
<b>Total financial liabilities</b>	<b>—</b>	<b>—</b>	<b>(84)</b>	<b>(84)</b>

\$ million	At 31 December 2015			
	Floating rate	Fixed rate	Non-interest bearing	Total
<b>Financial assets</b>				
Intercompany loans	66	—	—	66
Trade and other receivables	—	—	3	3
Cash and cash equivalents	1	—	—	1
<b>Total financial assets</b>	<b>67</b>	<b>—</b>	<b>3</b>	<b>70</b>
<b>Financial liabilities</b>				
Trade and other payables	—	—	(2)	(2)
Intercompany payables	—	—	(99)	(99)
<b>Total financial liabilities</b>	<b>—</b>	<b>—</b>	<b>(101)</b>	<b>(101)</b>

All the Company's interest bearing monetary assets are denominated in US dollars and have a maturity of less than one year.

##### (iv) Fair value of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements:

\$ million	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Intercompany loans	42	42	66	66
Trade and other receivables	3	3	3	3
Cash and cash equivalents	—	—	1	1
Trade and other payables	(2)	(2)	(2)	(2)
Intercompany payables	(82)	(82)	(99)	(99)
	<b>(39)</b>	<b>(39)</b>	<b>(31)</b>	<b>(31)</b>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash and cash equivalents, trade and other receivables, trade and other payables and intercompany loans and payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

##### (v) Capital management

The over-riding objectives of the Company's capital management policy are to safeguard and support the business as a going concern through the commodity cycle, to maximise returns to shareholders (either through dividends or share buy-backs) and benefits to other stakeholders and to maintain an optimal capital structure in order to reduce the Company's cost of capital (see note 31(i)).



**(i) Transactions with related parties**

Transactions with related parties comprise interest received from KAZ Minerals Finance PLC of \$0.2 million (2015: \$0.1 million) and management fees to KAZ Minerals Services Limited for services provided on behalf of the Company during the year under a management service agreement of \$18 million (2015: \$21 million).

The amounts outstanding from subsidiary companies are provided in notes 36(f) and 36(g).

The intercompany payables amount of \$82 million is due to KAZ Minerals Services Limited for management fees discussed above and other services (2015: \$99 million). The balance is payable on demand and is interest free.

The Company did not receive any dividends from KAZ Minerals Sales Limited (2015: \$nil) during the year.

An additional investment of \$1 million relating to capital contributions was made to KAZ Minerals Services Limited during 2016 (2015: \$1 million) (see note 36(e)). In 2015, the Company also waived its right to receive a repayment of \$100 million of the outstanding intercompany loan receivable from KAZ Minerals Finance PLC.

**(ii) 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.

**(m) Subsidiaries**

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed in the following table:

	Principal activity	Operating division	Country of incorporation	Equity interest at 31 December 2016 %	Equity interest at 31 December 2015 %
Aktogay Copper Smelter B.V.	Inactive	Mining Projects	The Netherlands	51.0 <sup>1</sup>	—
KAZ Minerals Aktogay B.V.	Holding company	Aktogay	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Aktogay Finance Limited	Group project financing company	Corporate services	England and Wales	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Aktogay LLC	Copper mine development	Aktogay	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Aktogay Project Finance Limited	Holding company	Corporate services	England and Wales	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Aktogay Smelter LLP	Smelting feasibility	Mining Projects	Kazakhstan	100.0 <sup>1</sup>	—
KAZ Minerals Bozshakol B.V.	Holding company	Bozshakol	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Bozshakol LLC	Copper mine development	Bozshakol	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Bozymchak LLC	Copper/gold mine development	Bozymchak	Kyrgyzstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Copper B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Copper Finance Limited	Holding company	Corporate services	England and Wales	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Copper Smelter B.V.	Holding company	Mining Projects	The Netherlands	100.0 <sup>1</sup>	100.0
KAZ Minerals Finance PLC	Group financing company	Corporate services	England and Wales	100.0	100.0
KAZ Minerals Fourteen B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Gold B.V.	Holding company	Bozymchak	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Holding B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Holdings International B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Investments Limited	Holding company	Corporate services	England and Wales	100.0	100.0
KAZ Minerals Koksay B.V.	Holding company	Mining Projects	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Koksay Holding B.V.	Holding company	Mining Projects	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Kupfer B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Management LLP	Management and services company	Corporate services	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Marketing and Logistics Limited	Inactive	East Region	Hong Kong	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Mining B.V.	Holding company	Corporate services	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>

### 36. Company financial statements continued

#### (m) Subsidiaries continued

	Principal activity	Operating division	Country of incorporation	Equity interest at 31 December 2016 %	Equity interest at 31 December 2015 %
KAZ Minerals One Limited	Holding company	Corporate services	England and Wales	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Projects Finance Limited	Group project financing company	Corporate services	England and Wales	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Sales Limited	Sales and logistics	East Region, Bozymchak, Bozshakol and Aktogay	England and Wales	100.0	100.0
KAZ Minerals Service LLP	Repairs and maintenance service entity	East Region	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KAZ Minerals Services Limited	Management and services company	Corporate services	England and Wales	100.0	100.0
KAZ Minerals Projects B.V.	Project management company	Mining Projects	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
KM Trading LLP	Kazakhstan sales company	East Region, Bozymchak, Bozshakol and Aktogay	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
Konsolidirovannaya Stroitel'naya Gornorudnaya Kompaniya LLP	Koksay copper mine development	Mining Projects	Kazakhstan	100.0 <sup>1</sup>	100.0 <sup>1</sup>
Kytco B.V.	Holding company	Bozymchak	The Netherlands	100.0 <sup>1</sup>	100.0 <sup>1</sup>
Vostokenergo LLC	Utility company (heat, water, electricity supply and distribution)	East Region	Kazakhstan	99.9 <sup>1</sup>	99.9 <sup>1</sup>
Vostoktsvetmet LLC	Copper mining and concentrating	East Region	Kazakhstan	99.9 <sup>1</sup>	99.9 <sup>1</sup>

<sup>1</sup> Indirectly held by the Company.

All companies in the above list incorporated in England and Wales have their registered address at 6th Floor, Cardinal Place, 100 Victoria Street, London SW1E 5JL, United Kingdom.

All companies in the list incorporated in the Netherlands have their registered address at Strawinskylaan 453, 1077XX, Amsterdam, The Netherlands.

KAZ Minerals Aktogay LLC, KAZ Minerals Management LLC and KM Trading LLC have their registered office at Building 8, Zhamal Omarova Street, Almaty, 050020, Kazakhstan.

The following entities and their registered office are as follows:

- KAZ Minerals Bozshakol LLC, Building 13, Tortkuduk village, Tort-Kudukskiy village region, Ekibastuz city, Pavlodar oblast, 141218, Kazakhstan.
- Konsolidirovannaya Stroitel'naya Gornorudnaya Kompaniya LLC, 142, Bogenbai batyr Street, Kaiser Tower, Business Centre, Almaty, 050000, Kazakhstan.
- Vostoktsvetmet LLC and KAZ Minerals Services LLC, 121 Aleksander Protozanov Street, Ust-Kamenogorsk city, East-Kazakhstan oblast, 070004, Kazakhstan.
- Vostokenergo LLC, 81/2 Kazakhstan Street, Ust-Kamenogorsk, East-Kazakhstan oblast, 070019, Kazakhstan.
- KAZ Minerals Aktogay Smelter LLC, 142 Bogenbay Batyr Street, Almaty, 050000, Kazakhstan.
- KAZ Minerals Bozymchak LLC, 41 Umetalieva Street Bishkek, 720010, Kyrgyzstan.
- KAZ Minerals Marketing and Logistics Limited, Unit No 4706 47/F Central Plaza, 18 Harbour Road Wanchai, Hong Kong.

**(n) Guarantees**

The Company is the guarantor for the following:

- as explained in note 24, the Company, together with Vostoksvetmet LLC and KAZ Minerals Sales Limited, is a guarantor of the PXF debt facility signed in October 2014;
- the Company was the guarantor of the loan facilities signed between KAZ Minerals Finance PLC and Samruk-Kazyna under the CDB/Samruk-Kazyna financing line. Following an amendment which was signed on 20 December 2014, the CDB/Samruk-Kazyna financing facilities became bilateral between KAZ Minerals and CDB, with no further guarantees to Samruk-Kazyna. The amendment became effective in March 2015 such that at 31 December 2015, the Company was then a guarantor of the loan facilities with the CDB only. As at 31 December 2016, KAZ Minerals Finance PLC had signed loan facilities amounting to \$1.9 billion which were fully drawn at that date;
- as explained in note 24, the Company is a guarantor of the CDB Aktogay finance facilities totalling \$1.5 billion for the Aktogay project signed in December 2011 with CDB;
- the \$300 million Development Bank of Kazakhstan facility;
- the \$50 million CAT revolving credit facility signed in August 2015;
- the \$300 million payable to NFC following the deferral of payments on the Aktogay construction project;
- the operating lease on the Company's head office in London.

\$ million (unless otherwise stated)	2016	2015	2014	2013	2012 <sup>2</sup>
<b>Results</b>					
Revenues <sup>1</sup>	766	665	846	931	3,353
Profit before finance items and taxation <sup>1</sup>	218	90	94	191	242
Profit/(loss) before taxation <sup>1</sup>	220	12	(169)	138	151
Profit/(loss) after taxation <sup>1</sup>	177	(12)	(234)	90	65
Loss for the year from discontinued operations	—	—	(2,128)	(2,122)	(2,335)
Profit/(loss) attributable to equity shareholders	177	(12)	(2,362)	(2,030)	(2,271)
<b>Assets employed</b>					
Non-current assets	3,536	2,715	3,222	4,032	6,699
Current assets	1,521	1,443	2,496	4,587	3,294
Non-current liabilities	(3,866)	(3,263)	(2,976)	(3,197)	(2,870)
Current liabilities	(655)	(573)	(638)	(1,201)	(858)
Net assets	536	322	2,104	4,221	6,265
<b>Financed by</b>					
Equity	533	319	2,101	4,217	6,259
Minority interests	3	3	3	4	6
	536	322	2,104	4,221	6,265
<b>Key statistics</b>					
EBITDA (excluding special items) <sup>1</sup>	351	202	355	359	1,364
Underlying Profit <sup>1</sup>	180	(10)	86	102	492
Free Cash Flow	(60)	(145)	(31)	(171)	85
Free Cash Flow excluding interest payments	119	2	119	(15)	170
EPS – basic and diluted (\$) <sup>1</sup>	0.40	(0.03)	(0.52)	0.18	(4.33)
EPS based on Underlying Profit (\$) <sup>1</sup>	0.40	(0.02)	0.19	0.20	0.94
Dividends per Share (US cents)	—	—	—	—	11.0
Maintenance spend per tonne of own copper cathode (\$/t) <sup>1</sup>	649	827	631	935	2,065

<sup>1</sup> 2016, 2015, 2014 and 2013 reflect continuing operations only.

<sup>2</sup> Not restated to remove Disposal Assets and as presented in the 2013 consolidated five year summary.

## 1. Summary of significant production and sales figures

kt (unless otherwise stated)

	2016	2015
Ore mined	49,022	14,537
Copper content in ore mined (%)	0.66	1.10
Copper cathode equivalent production <sup>1</sup>	140	81
Copper cathode equivalent sales <sup>1</sup>	141	84
Zinc in concentrate production	75	94
Silver bar equivalent production (koz) <sup>1</sup>	3,103	3,135
Gold bar equivalent production (koz) <sup>1</sup>	120	35

<sup>1</sup> Includes all operations for the full year, including during the period of pre-commercial production.

## 2. Mining

### Metal mining

	2016 kt	Ore mined 2015 kt	2016 %	Copper 2015 %	2016 %	Zinc 2015 %	2016 g/t	Gold 2015 g/t	2016 g/t	Silver 2015 g/t
<b>East Region</b>										
Orlovsky	1,260	1,417	3.67	3.69	4.38	4.52	1.02	1.18	58.0	64.4
Irtyshtsky	632	655	1.54	1.67	3.12	3.13	0.29	0.28	53.6	62.2
Yubileyno-Snegirikhinsky	528	625	1.98	1.94	1.68	0.98	0.27	0.28	17.5	16.4
Artemyevsky	1,309	1,289	1.48	1.62	2.10	2.96	0.37	0.38	38.9	35.1
<b>Total East Region</b>	<b>3,729</b>	<b>3,986</b>	<b>2.30</b>	<b>2.42</b>	<b>2.98</b>	<b>3.23</b>	<b>0.56</b>	<b>0.63</b>	<b>44.8</b>	<b>47.0</b>
Bozymchak	935	449	0.86	0.97	—	—	1.46	1.77	9.5	10.0
Aktogay oxide	15,989	3,003	0.41	0.37	—	—	—	—	—	—
Aktogay sulphide	97	—	0.39	—	—	—	—	—	—	—
Bozshakol sulphide	13,386	532	0.57	0.52	—	—	0.32	0.30	1.7	1.9
Bozshakol clay	14,886	6,567	0.60	0.70	—	—	0.27	0.31	1.3	2.1
<b>Total</b>	<b>49,022</b>	<b>14,537</b>	<b>0.66</b>	<b>1.10</b>	<b>2.98</b>	<b>3.23</b>	<b>0.36</b>	<b>0.48</b>	<b>6.6</b>	<b>17.9</b>

## 3. Copper processing

### (a) Concentrating

	Copper concentrate produced		Copper in concentrate	
	2016 kt	2015 kt	2016 %	2015 %
<b>East Region</b>				
Orlovsky	219	254	19.1	18.6
Nikolaevsky	102	134	22.1	21.7
Belousovsky	46	54	18.6	18.8
<b>Total East Region</b>	<b>367</b>	<b>442</b>	<b>19.9</b>	<b>19.6</b>
Bozymchak	34	13	24.4	23.7
Bozshakol	214	—	23.4	—
<b>Total</b>	<b>615</b>	<b>455</b>	<b>21.4</b>	<b>19.7</b>

### (b) Heap leaching

	Ore to leach pad		Copper Grade	
	2016 kt	2015 kt	2016 %	2015 %
Aktogay	15,989	3,003	0.41	0.37



## 4. Zinc and precious metals processing

	Zinc concentrate produced		Zinc in concentrate		Silver <sup>1</sup>		Gold <sup>1</sup>	
	2016 kt	2015 kt	2016 %	2015 %	2016 g/t	2015 g/t	2016 g/t	2015 g/t
<b>East Region</b>								
Orlovsky	88	100	45.4	45.7	144.6	168.2	1.5	1.7
Belousovsky	29	30	48.1	48.9	552.3	515.4	2.2	2.1
Nikolaevsky	46	70	47.0	48.3	334.7	197.2	2.4	1.6
Total East Region	163	200	46.3	47.1	248.6	219.2	1.9	1.7
Bozymchak	—	—	—	—	272.4	280.3	42.1	41.9
Bozshakol	—	—	—	—	49.0	—	9.9	—
<b>Total</b>	<b>163</b>	<b>200</b>	<b>46.3</b>	<b>47.1</b>	<b>180.3</b>	<b>221.0</b>	<b>6.9</b>	<b>2.9</b>

<sup>1</sup> Grade in grammes per tonne of copper concentrate.

## 5. Copper cathode production

	Concentrate smelted		Copper in concentrate		Copper cathodes	
	2016 kt	2015 kt	2016 %	2015 %	2016 kt	2015 kt
Balkhash smelter	394	438	20.2	19.6	75	81
Aktogay	—	—	—	—	18	—

## 6. Precious metal production

	Silver bar equivalent <sup>1</sup>		Gold bar equivalent <sup>1</sup>	
	2016 koz	2015 koz	2016 koz	2015 koz
East Region	2,565	3,052	22	22
Bozymchak	252	83	38	13
Bozshakol	286	—	60	—
<b>Total</b>	<b>3,103</b>	<b>3,135</b>	<b>120</b>	<b>35</b>

<sup>1</sup> Includes finished metal produced and finished metal equivalent of concentrate sold, including the period of pre-commercial production.

## 7. Other production

	2016 kt	2015 kt
Acid	286	449
Lead dust	3	4

8. Sales<sup>1</sup>

kt (unless otherwise stated)	2016		2015	
	kt	\$ million	kt	\$ million
Copper cathode	90	440	83	459
Copper in concentrate <sup>2</sup>	16	85	—	—
Zinc metal in concentrate	75	95	96	102
Silver bar (koz)	2,679	46	3,015	46
Silver in concentrate (koz) <sup>2</sup>	158	2	—	—
Gold bar (koz)	55	69	29	35
Gold in concentrate (koz) <sup>2</sup>	22	23	—	—

<sup>1</sup> Includes revenues and sales volumes following the achievement of commercial production.

<sup>2</sup> Payable metal in concentrate sold.

9. Average realised prices<sup>1</sup>

	2016	2015
Copper cathode (\$/t)	4,904	5,515
Copper in concentrate (\$/t) <sup>2</sup>	5,210	—
Zinc concentrate (\$/t)	1,271	1,061
Silver bar (\$/oz)	17.2	15.5
Silver in concentrate (\$/oz) <sup>2</sup>	14.3	—
Gold bar (\$/oz)	1,249	1,185
Gold in concentrate (\$/oz) <sup>2</sup>	1,068	—

<sup>1</sup> Based on revenues and volumes sold including those following achievement of commercial production at Bozshakol and Aktogay in 2016 and Bozymchak in 2015.

<sup>2</sup> Payable metal in concentrate sold during the period of commercial production after the deduction of processing charges. In respect of the Bozshakol material sold, a provisional pricing credit for copper was recognised due to an increase in the price from the forward copper price at 27 October 2016 and provisional pricing debits for gold and silver were recognised due to decreases in prices from the forward gold and silver prices at 27 October 2016.

## Ore reserves and mineral resources estimation methods

The Republic of Kazakhstan inherited the classification system and estimation methods for minerals that were established by the Former Soviet Union ('FSU'). Updated "Regulations for the Classification of Non-ferrous Metals Reserves" became law in Kazakhstan in 2006. In practice, this means that the statements of resources and reserves developed by KAZ Minerals (and the mining plans to which they relate) must be submitted for approval to the corresponding committees of the Ministry for Investment and Development, for which adherence to the standardised national system of resource and reserve estimation is mandatory.

Mineral deposits are classified according to their degree of geological complexity into one of three deposit categories (for copper deposits), which determine the density of exploration sampling and the proportions and classifications of GKZ (State Commission on Mineral Reserves) reserves that must be estimated. As part of the exploitation licence for each mineral deposit, a set of "Conditions for Estimation of Reserves" are prepared by a Kazakhstan licenced design institute and submitted for approval to the State. The Conditions for each deposit specify the minimum thickness for exploitation of the ore body and cut-off grades, plus special considerations which may apply where the conditions for mineral extraction are exceptional or present difficulties.

Resources and reserves have traditionally been estimated by KAZ Minerals according to the FSU's "Classification and Estimation Methods for Reserves". It is apparent that there is a growing trend towards greater flexibility and discussion between state authorities and mining companies with respect to resource estimation methods. This has been reflected in the increased use of computers and associated software by KAZ Minerals in order to maintain records about reserves at the operating mines and using databases linked to modelling software to assist in exploration and preliminary resource estimation. DMT Consulting Ltd ('DMT') recognises that this is an important step towards achieving verifiable and internally consistent resource and reserve estimates.

For the operating mines in the East Region and Kyrgyzstan, DMT has reviewed the reserves statements of KAZ Minerals and presented them in accordance with the criteria required to meet JORC standards. "Guidelines on the Alignment of Kazakh minerals reporting standards and the CRIRSCO Template" were published during 2015 as a joint initiative of the Committee for Mineral Reserves International Reporting Standards ('CRIRSCO') and the Kazakh Committee of Geology and Subsoil Use and State Reserves Committee. The guidelines have been used to align categories of reserves (A, B, C<sub>1</sub> and C<sub>2</sub>) with appropriate, internationally recognised, Mineral Resource categories (Measured, Indicated and Inferred). The JORC Competent Person, however, remains responsible for any estimate that is reported.

Mineral Resources, by definition, must have reasonable prospects for eventual economic extraction. In general, therefore, the total active balance reserve, where no unresolvable problems are foreseen, is considered as the Mineral Resource. Balanced reserves in categories B and C<sub>1</sub> are assigned to the Measured Mineral Resource and the C<sub>2</sub> category is assigned to the Indicated Mineral Resource. Ore Reserves in Proved and Probable categories are then converted from the Resources, after consideration of mining plans and after the application of appropriate modifying factors for loss and dilution. Legal approval for the exploitation of a particular reserve block is also taken into consideration.

For KAZ Minerals' major development projects at Aktogay, Bozshakol and Koksay, DMT has based the assessment of Mineral Resources and Ore Reserves on estimates derived from computer modelling that are estimated in accordance with the guidelines of JORC, typically by external consultants. The JORC Code specifies that a Pre-feasibility Study is the minimum level of engineering design required before a Mineral Resource can be converted to an Ore Reserve. Each of these projects is being developed following international best practice, which includes the creation of a computerised geological model linked to an electronic database. GKZ estimates of tonnage and metal content will continue to be undertaken to comply with national Kazakh requirements. DMT, however, believes that these projects will be best understood by potential investors if the resources and reserves are reported along conventional international lines from the outset, using the JORC Code.

Stockpiling of mined ore is common practice at large open pit mines, usually as a means of providing a consistent tonnage and grade feed to the processing plant. DMT will include stockpiled ore in the inventory of Ore Reserves and Mineral Resources, but refer to the quantity of material held in stockpile at year end. In the case of mined ore added to a heap leach pad, this is considered as 'in process' and hence is not included in the Ore Reserve and Mineral Resource Statement.

DMT's visit to KAZ Minerals' Almaty office for this year's audit took place in December 2016. Mine production data for the operating assets has therefore been based on actual figures until October 2016 and then based on forecasts to arrive at 'end-of-year' results.

The assessment of Inferred Resources for KAZ Minerals is incomplete. The mines do not keep records of "prognosticated reserves" (as defined in Kazakhstan), categories P1, P2 and P3 under GKZ, which may include material that could be considered equivalent to the JORC category of Inferred Resources. Inferred Resources are shown in the tabulations for Aktogay, Bozshakol and Koksay where model based estimates have been used and Inferred Resources have been categorised as such by a Competent Person under the JORC Code.

All Ore Reserves quoted in the following tables are discounted for ore losses and dilution and refer to estimates of tonnes and contained metal grades at the point of delivery to the processing plant. Mineral Resources are not discounted for losses and dilution and are inclusive of Ore Reserves. All figures in reserves and resources are in dry metric tonnes and are dated as at 31 December 2016.

Summary of ore reserves

		Reserves <sup>1</sup> kt		Copper %		Zinc %		Gold g/t		Silver g/t		Lead %		Molybdenum %	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
East Region	Proved	14,391	16,289	2.41	2.53	5.21	5.28	0.9	0.9	70	72	1.19	1.15	—	—
	Probable	2,955	3,600	2.59	2.72	3.65	3.83	0.6	0.5	82	71	0.88	0.81	—	—
	Total	17,346	19,889	2.44	2.57	4.94	5.02	0.8	0.8	72	72	1.14	1.09	—	—
Bozymchak	Proved	9,284	9,831	0.74	0.75	—	—	1.2	1.3	8.0	8.1	—	—	—	—
	Probable	5,507	5,881	0.75	0.75	—	—	1.1	1.2	7.1	7.2	—	—	—	—
	Total	14,791	15,712	0.75	0.75	—	—	1.2	1.2	7.7	7.7	—	—	—	—
Aktogay sulphide <sup>2</sup>	Proved	768,900	769,000	0.35	0.35	—	—	—	—	—	—	—	—	0.007	0.007
	Probable	628,000	628,000	0.34	0.34	—	—	—	—	—	—	—	—	0.008	0.008
	Total	1,396,900	1,397,000	0.35	0.35	—	—	—	—	—	—	—	—	0.007	0.007
Aktogay oxide	Proved	99,010	115,000	0.35	0.36	—	—	—	—	—	—	—	—	—	—
	Probable	900	900	0.29	0.29	—	—	—	—	—	—	—	—	—	—
	Total	99,910	115,900	0.35	0.36	—	—	—	—	—	—	—	—	—	—
Bozshakol sulphide <sup>3, 4</sup>	Proved	105,841	118,000	0.36	0.36	—	—	—	—	—	—	—	—	—	—
	Probable	426,000	426,000	0.36	0.36	—	—	—	—	—	—	—	—	—	—
	Total	531,841	544,000	0.36	0.36	—	—	—	—	—	—	—	—	—	—
Bozshakol clay <sup>4</sup>	Proved	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Probable	28,596	29,000	0.64	0.63	—	—	—	—	—	—	—	—	—	—
	Total	28,596	29,000	0.64	0.63	—	—	—	—	—	—	—	—	—	—
<b>Total KAZ Minerals</b>	Proved	997,426	1,028,120	0.38	0.39	0.08	0.08	0.02	0.03	1.1	1.2	0.02	0.02	0.006	0.006
	Probable	1,091,958	1,093,381	0.36	0.37	0.01	0.01	0.01	0.01	0.3	0.3	—	—	0.005	0.005
	Total	2,089,384	2,121,501	0.37	0.38	0.04	0.05	0.02	0.02	0.7	0.7	0.01	0.01	0.005	0.005

1 Includes allowance for ore loss and dilution. Reserves = Resources – Ore Loss + Dilution.

2 The molybdenum grade at Aktogay shown in the Proved Reserve is estimated to the Probable Reserve level of confidence.

3 Gold and silver grades for Bozshakol are estimated to the Inferred Resource level of confidence and have not been converted to reserves. The Mineral Resource grades for sulphide ore are 0.2 g/t for gold and 1.1 g/t for silver, and for clay ore, 0.7 g/t for gold and 1.3 g/t for silver.

4 Reserve tonnages for Bozshakol include stockpiled material.

## Summary of mineral resources

		Resources <sup>1</sup>		Copper %		Zinc %		Gold g/t		Silver g/t		Lead %		Molybdenum %	
		2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
East Region	Measured	28,636	30,512	2.74	2.79	5.61	5.54	1.1	1.0	87	87	1.47	1.44	—	—
	Indicated	8,567	9,747	2.92	2.97	3.21	3.21	0.6	0.6	66	59	0.90	0.83	—	—
	Total	37,203	40,259	2.79	2.83	5.06	4.98	1.0	0.9	82	80	1.34	1.29	—	—
	Inferred	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Bozymchak	Measured	10,413	10,935	0.86	0.86	—	—	1.4	1.4	9.2	9.2	—	—	—	—
	Indicated	6,030	6,387	0.85	0.86	—	—	1.3	1.3	8.1	8.2	—	—	—	—
	Total	16,443	17,322	0.85	0.86	—	—	1.4	1.4	8.8	8.9	—	—	—	—
	Inferred	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Aktogay sulphide <sup>2</sup>	Measured	813,000	813,100	0.35	0.35	—	—	—	—	—	—	—	—	0.007	0.007
	Indicated	784,300	784,300	0.32	0.32	—	—	—	—	—	—	—	—	0.008	0.008
	Total	1,597,300	1,597,400	0.34	0.34	—	—	—	—	—	—	—	—	0.007	0.007
	Inferred	486,200	486,200	0.30	0.30	—	—	—	—	—	—	—	—	0.007	0.007
Aktogay oxide	Measured	102,986	117,656	0.36	0.37	—	—	—	—	—	—	—	—	—	—
	Indicated	950	950	0.32	0.32	—	—	—	—	—	—	—	—	—	—
	Total	103,936	118,606	0.36	0.37	—	—	—	—	—	—	—	—	—	—
	Inferred	1,350	1,350	0.23	0.23	—	—	—	—	—	—	—	—	—	—
Bozshakol sulphide <sup>3, 4</sup>	Measured	475,418	487,000	0.34	0.34	—	—	0.1	0.1	1.4	1.4	—	—	0.005	0.005
	Indicated	418,000	418,000	0.38	0.38	—	—	0.2	0.2	1.2	1.2	—	—	0.006	0.006
	Total	893,418	905,000	0.36	0.36	—	—	0.1	0.1	1.3	1.3	—	—	0.006	0.006
	Inferred	235,000	235,000	0.31	0.31	—	—	0.1	0.1	0.8	0.8	—	—	0.003	0.003
Bozshakol clay <sup>3, 4</sup>	Measured	1,603	2,000	0.38	0.38	—	—	0.1	0.1	2.0	2.0	—	—	—	—
	Indicated	28,601	29,000	0.66	0.66	—	—	0.7	0.7	1.3	1.3	—	—	—	—
	Total	30,204	31,000	0.65	0.65	—	—	0.6	0.6	1.3	1.3	—	—	—	—
	Inferred	49,000	49,000	0.35	0.35	—	—	0.4	0.4	0.9	0.9	—	—	—	—
Koksay <sup>5</sup>	Measured	246,500	246,500	0.41	0.41	—	—	—	—	—	—	—	—	0.004	0.004
	Indicated	340,800	340,800	0.45	0.45	—	—	—	—	—	—	—	—	0.003	0.003
	Total	587,300	587,300	0.43	0.43	—	—	—	—	—	—	—	—	0.003	0.003
	Inferred	148,700	148,700	0.37	0.37	—	—	—	—	—	—	—	—	0.002	0.002
Total KAZ Minerals	Measured	1,678,556	1,707,703	0.40	0.41	0.10	0.10	0.1	0.1	1.9	1.9	0.03	0.03	0.006	0.006
	Indicated	1,587,248	1,589,184	0.39	0.39	0.02	0.02	0.1	0.1	0.7	0.8	0.01	0.01	0.006	0.006
	Total	3,265,804	3,296,887	0.39	0.40	0.06	0.06	0.1	0.1	1.4	1.4	0.02	0.02	0.006	0.006
	Inferred	920,250	920,250	0.32	0.32	—	—	0.1	0.1	0.3	0.3	—	—	0.005	0.005

1 Resources include undiscounted Reserves. No ore loss or dilution has been included.

2 Molybdenum grades at Aktogay, although shown in Measured Resources, are estimated only to the Indicated Resource level of confidence.

3 The Bozshakol gold, silver and molybdenum grades, although shown in Measured and Indicated Resources, are estimated only at the Inferred Resource level of confidence.

4 Resource tonnages for Bozshakol include stockpiled material.

5 Gold is concentrated within a portion of the Koksay deposit so the gold tonnage and grade are reported separately. The Measured and Indicated Resource containing gold is 249.5 Mt at a grade of 0.07 g/t.

### Revision of ore reserves and mineral resources statement to 31 December 2016

DMT Consulting Ltd ('DMT' or the 'Consultant') has undertaken a review of the estimate of the Mineral Resources and Ore Reserves prepared by KAZ Minerals PLC (the 'Company'), as the basis for the preparation of a statement of Mineral Resources and Ore Reserves for the Company as at 31 December 2016. Tabulations of Mineral Resources and Ore Reserves, comparisons with the previous annual statement and short technical descriptions are provided for the Company's copper and gold assets.

DMT's technical understanding of the mines and projects held by KAZ Minerals is largely based on the Competent Person's Reports that IMC (prior to changing name to DMT) prepared for the Company in 2005, for the London listing, and again in 2010, for the Hong Kong listing. Additional technical site visits have been made since 2010 when DMT considered them necessary, either to look at new assets or where significant material changes have taken place e.g. new exploration drilling. As part of the 2016 review, DMT consultants visited the underground operation at Artemyevsky and the Bozymchak open pit mine in Kyrgyzstan. Technical familiarity with the Company's mines and projects is a critical aspect of the annual review, in support of what is primarily a desktop exercise.

The annual review of Mineral Resources and Ore Reserves carried out by DMT is predominantly focused on mine reserve reports, depletion through production, analysis of Company plans, new exploration results, new technical reports and other changes affecting the Mineral Resources and Ore Reserves.

The Statement of Mineral Resources and Ore Reserves is restated in accordance with the criteria of the 2012 version of the 'Australasian Code for Reporting Mineral Resources and Ore Reserves', published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and collaborating institutions (the 'JORC Code').

The consideration of Mineral Resources is based on the JORC definition which says that a Mineral Resource is an occurrence of minerals in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. In converting Mineral Resources to Ore Reserves in accordance with the JORC Code, DMT considers a number of "Modifying Factors". Consequently, the Code defines an Ore Reserve as "the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate, at the time of reporting, that extraction could reasonably be justified."

The term "economically mineable" has no fixed definition in the JORC Code, and short-term fluctuations in factors such as metal prices or operating expenditure do not warrant the re-classification from Ore Reserves to Mineral Resources. If, however, the changes are expected to be long term or permanent in nature, then such re-classification is required.

For the sake of clarity in this report, references to the JORC categories "Ore Reserve" and "Mineral Resource" are capitalised. The non-capitalised term "reserve" refers to the Kazakh use of the word which can, depending on the context, be synonymous with both JORC terms "Ore Reserve" and "Mineral Resource".

DMT is satisfied, from the audit undertaken, that the recently revised estimates of resources and reserves prepared by the Company for the East Region and Kyrgyz operating mines are in accordance with the classification system required by law in the Republic of Kazakhstan and that, correspondingly, the estimates have a consistent basis for expressing the degree of confidence for stating quantities of exploitable minerals at specific grades of metal content. On the basis of the estimates supplied by the Company, DMT has applied the same technical criteria as used in the 2010 audit, for preparation of the restatement of Ore Reserves and Mineral Resources as at 31 December 2016, in accordance with the reporting criteria of the JORC Code.

Guidelines for the alignment of Russian minerals reporting standards and the JORC Code were published in 2010 and these have been applied in the preparation of the Mineral Resource and Ore Reserve statement for the East Region and Kyrgyz operating mines. This is considered appropriate as all of these mineral deposits currently being mined by KAZ Minerals were explored during the Soviet era and reserves approved during that era are still referenced. The aim of the guidelines is to provide a standard reporting terminology for use in disclosure of the assets of mining companies to stock markets.

#### Simon Pepper

Director - Mining, DMT Consulting Ltd  
February 2017

#### DMT Consulting Ltd

Pure Offices  
Lake View Drive  
Sherwood Park  
Nottingham NG15 0DT  
United Kingdom



### Annual General Meeting

The Annual General Meeting of the Company will be held at 12.15pm on Thursday 27 April 2017 at the offices of Linklaters LLP, One Silk Street, London EC2Y 8HQ, United Kingdom. The Notice of Annual General Meeting and Form of Proxy are enclosed with this Annual Report and Accounts. The Notice of Annual General Meeting can also be found in the Investors & Media section on the KAZ Minerals website ([www.kazminerals.com](http://www.kazminerals.com)).

### Electronic shareholder communications

KAZ Minerals uses its website ([www.kazminerals.com](http://www.kazminerals.com)) as its primary means of communication with its shareholders provided that the individual shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping KAZ Minerals reduce its costs and its impact on the environment. Shareholders can sign up for electronic communications via Computershare's Investor Centre website at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). Shareholders that have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's UK or Hong Kong registrar. In addition to enabling shareholders to register to receive communications by email, Computershare's Investor Centre website provides a facility for shareholders to manage their shareholding online by allowing them to:

- view their share balance;
- change their address;
- view payment and tax information; and
- update payment instructions.

Computershare's Investor Centre website also offers a share dealing service for shareholders on the UK register. Please contact Computershare to obtain further information.

### Electronic voting

Shareholders can submit proxies for the 2017 Annual General Meeting electronically by logging on to [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). Electronic proxy appointments must be received by the Company's UK or Hong Kong registrar no later than 12.15pm UK time (7.15pm Hong Kong time) on Tuesday 25 April 2017 (or not less than 48 hours before the time fixed for any adjourned meeting).

### Website

A wide range of information on KAZ Minerals is available at [www.kazminerals.com](http://www.kazminerals.com) including:

- financial and operational information – annual and half-yearly reports as well as quarterly production reports;
- share price information – current trading details and historical charts;
- shareholder information – dividend information, Annual General Meeting results and details of the Company's UK and Hong Kong registrars; and
- press releases – current and historical.

### Shareholder interests at 31 December 2016

Number of shareholders: 1,506

Number of shares in issue: 458,379,033

By size of holding	No. of accounts	% of total accounts	% of ordinary share capital
1,000 and under	755	50.13	0.06
1,001 to 5,000	307	20.39	0.16
5,001 to 10,000	96	6.38	0.15
10,001 to 100,000	191	12.68	1.50
Over 100,000	157	10.42	98.13
<b>Total</b>	<b>1,506</b>	<b>100.00</b>	<b>100.00</b>

By category of shareholder	No. of accounts	% of total accounts	% of ordinary share capital
Private shareholders	782	51.92	0.48
Banks/nominees	683	45.35	96.57
Pension funds	1	0.07	0.00
Investment/unit trusts	2	0.13	0.00
Insurance companies	2	0.13	0.00
Corporate holders	31	2.06	0.31
Hong Kong Share Register	1	0.07	0.08
Share Plan Control Account	2	0.13	0.01
Treasury Account	1	0.07	2.55
Vested Share Account	1	0.07	0.00
<b>Total</b>	<b>1,506</b>	<b>100.00</b>	<b>100.00</b>

### Events calendar

Q1 Interim Management Statement	April 2017
Annual General Meeting	27 April 2017
Half-yearly results announced	August 2017
Q3 Interim Management Statement	October 2017

### Registrars

For information about proxy voting, dividends and to report changes in personal details, shareholders should contact:

For shareholders holding their shares on the UK register:

#### Computershare Investor Services PLC

The Pavilions  
Bridgwater Road  
Bristol BS13 8AE  
United Kingdom  
Tel: +44 (0)370 707 1100  
Fax: +44 (0)370 703 6101  
Email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

For shareholders holding their shares on the Hong Kong register:

#### Computershare Hong Kong Investor Services Limited

17M Floor  
Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong  
Tel: +852 2862 8555  
Fax: +852 2865 0990  
Email: [hkinfo@computershare.com.hk](mailto:hkinfo@computershare.com.hk)

## Shareholder information

For shareholders holding their shares on the Kazakhstan Stock Exchange:

### Shareholder Enquiries

KAZ Minerals PLC  
6<sup>th</sup> Floor, Cardinal Place  
100 Victoria Street  
London SW1E 5JL  
United Kingdom  
Tel: +44 (0)20 7901 7898  
Email: [shareholder@kazminerals.com](mailto:shareholder@kazminerals.com)

### Unsolicited telephone calls and correspondence

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target US or UK shareholders, offering to sell them what often turn out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive. If shareholders receive any unsolicited investment advice, they can check if the person or organisation is properly authorised by the Financial Conduct Authority (FCA) at [www.fca.org.uk/register](http://www.fca.org.uk/register) and the matter may be reported to the FCA by using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams) or by calling 0800 111 6768 (UK) or +44 20 7066 1000 (international). Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

### Currency option and dividend mandate

The Company declares dividends in US dollars. For those shareholders who hold their shares on the UK register the default currency for receipt of their dividends is US dollars, although they can elect to receive their dividends in UK pounds sterling. Those shareholders who wish to receive their dividend in UK pounds sterling should contact the Company's UK registrar to request a currency election form. For those shareholders who hold their shares on the Hong Kong register the default currency for receipt of their dividends is Hong Kong dollars, although they can elect to receive their dividends in US dollars. Shareholders on the Hong Kong register of members can contact the Company's Hong Kong registrar to request a currency election form.

Shareholders on the UK register of members can arrange for dividends to be paid directly into a UK bank or building society account. To take advantage of this facility, you should contact the Company's UK registrar to request a dividend mandate form or register online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). The arrangement is only available in respect of dividends paid in UK pounds sterling.

### Company Secretary

Susanna Freeman  
Tel: +44 (0)20 7901 7800  
Email: [susanna.freeman@kazminerals.com](mailto:susanna.freeman@kazminerals.com)

### Registered office

KAZ Minerals PLC  
6<sup>th</sup> Floor, Cardinal Place  
100 Victoria Street  
London SW1E 5JL  
United Kingdom  
Tel: +44 (0)20 7901 7800  
Registered number: 05180783

### Joint corporate brokers

J.P. Morgan Cazenove Limited  
25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

### Citigroup Global Markets Limited

33 Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

### Auditors

KPMG LLP  
15 Canada Square  
Canary Wharf  
London E14 5GL  
United Kingdom

## Glossary

### Board or Board of Directors

the Board of Directors of the Company

### capital employed

the aggregate of equity attributable to owners of the Company, non-controlling interests and borrowings

### cash operating costs

all costs included within profit/(loss) before finance items and taxation, net of other operating income, excluding mineral extraction tax, royalties, depreciation, depletion, amortisation and special items

### CAT facility

revolving credit facility provided by Caterpillar Financial Services (UK) Limited

### CDB or China Development Bank

China Development Bank Corporation

### CIS

Commonwealth of Independent States, comprised of former Soviet Republics

### CIT

corporate income tax

### CNY

Chinese yuan, basic unit of the renminbi

### CO<sub>2</sub>

carbon dioxide

### Code or UK Corporate

#### Governance Code

the UK Corporate Governance Code issued by the Financial Reporting Council

### Committee or Committees

any or all of the Audit; Health, Safety and Environment; Remuneration; Nomination, Operations Ramp Up Assurance and Project Assurance Committees depending on the context in which the reference is used

### continuing operations

the Group following completion of the Restructuring

### CREST

an electronic means of settling share transactions and registering investors on a company's register of members

### Cuprum Holding

Cuprum Netherlands Holding B.V. (now named Kazakhmys Holding Group B.V.), the entity to which the Disposal Assets were transferred

### DBK

Development Bank of Kazakhstan

### Directors

the Directors of the Company

### Disposal Assets

the Disposal Assets comprised the mining, processing, auxiliary, transportation and heat and power assets of the Group in the Zhezkazgan and Central Regions. The Disposal Assets included 12 copper mines, mine development opportunities, four concentrators, two smelters, two coal mines and three captive heat and power stations, all of which were disposed of as a result of the Restructuring

### dollar or \$ or US\$

United States dollars, the currency of the United States of America

### EBITDA

earnings before interest, taxation, depreciation, depletion, amortisation, mineral extraction tax and royalties

### EPS

earnings per share

### EPS based on Underlying Profit/(Loss)

profit/(loss) for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business, and their resulting taxation and non-controlling interest impact, divided by the weighted average number of ordinary shares in issue during the period

### Euro

the currency of certain member states of the European Union

### Free Cash Flow

net cash flow from operating activities before capital expenditure and non-current VAT associated with expansionary and new projects less sustaining capital expenditure

### GHG

greenhouse gas

### g/t

grammes per metric tonne

### GRI4

Global Reporting Initiative Sustainability Guidelines version 4

### gross cash cost

cash operating costs, including pre-commercial production costs, excluding purchased cathode, divided by the volume of own copper cathode equivalent sales

### Gross EBITDA

earnings, including pre-commercial earnings, before interest, taxation, depreciation, depletion, amortisation, mineral extraction tax and royalties

### Gross Revenues

sales proceeds from all volumes sold, including pre-commercial production volume

### the Group

KAZ Minerals PLC and its subsidiary companies

### HSE

Health, Safety and Environment

### IAS

International Accounting Standard

### IASB

International Accounting Standards Board

### ICMM

International Council on Mining and Metals

### IFRIC

International Financial Reporting Interpretations Committee

### IFRS

International Financial Reporting Standard

### JORC

Joint Ore Reserves Committee

### JORC Code

the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves

### KAZ Minerals or the Company

KAZ Minerals PLC

### Kazakhmys Corporation LLC or Kazakhmys LLC

Kazakhmys Corporation LLC, the Group's principal operating subsidiary in Kazakhstan prior to the Restructuring

### Kazakhstan

the Republic of Kazakhstan

### koz

thousand ounces

### KPI

key performance indicator

### kt

thousand metric tonnes

### Kyrgyzstan

the Kyrgyz Republic

### lb

pound, unit of weight

### LBMA

London Bullion Market Association

### LIBOR

London Interbank Offered Rate

## Glossary

### Listing

the listing of the Company's ordinary shares on the London Stock Exchange on 12 October 2005

### LME

London Metal Exchange

### LTIFR

lost time injury frequency rate

### major growth projects

Bozshakol and Aktogay

### megalitre

thousand cubic metres

### MET

mineral extraction tax

### Mt

million metric tonnes

### net cash costs

cash operating costs, including pre-commercial production costs, excluding purchased cathode, less by-product Gross Revenues, divided by the volume of own copper cathode equivalent sales

### NFC

China Non Ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd

### ounce or oz

a troy ounce, which equates to 31.1035 grammes

### PJ

a standard unit of energy, work and heat equal to  $10^{15}$  joules

### PXF

pre-export finance debt facility

### Recordable Case

a Recordable Injury case or a Recordable Disease case

### Recordable Disease

a new disease in the categories of occupational respiratory disorders, occupational hearing loss, musculoskeletal disorders, occupational cancers and other occupational medical disorders

### Recordable Injury

a new occupational injury of sufficient severity that it requires medical treatment beyond first aid or results in the worker's inability to perform his or her routine function on the next calendar day

### Restructuring

the transfer, subject to certain consents and approvals, of the Disposal Assets to Cuprum Netherlands Holding B.V. which was approved by shareholders at the General Meeting on 15 August 2014 and completed on 31 October 2014

### RMB

renminbi, the official currency of the People's Republic of China

### \$/t or \$/tonne

US dollars per metric tonne

### Samruk-Kazyna

Joint Stock Company National Welfare Fund "Samruk-Kazyna", an entity owned and controlled by the Government of Kazakhstan

### Scope 1 emissions

direct greenhouse gas emissions from sources that are owned by the Group

### Scope 2 emissions

indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam

### som or KGS

the official currency of Kyrgyzstan

### Speak-Up

the Group's confidential whistleblowing arrangements

### special items

those items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business. Special items are set out in note 7 to the consolidated financial statements

### SX/EW

solvent extraction and electrowinning, a two-stage metallurgy process used for the extraction of copper

### t

metric tonnes

### TC/RCs

treatment charges and refining charges for smelting and refining services

### tenge or KZT

the official currency of the Republic of Kazakhstan

### TJ

a standard unit of energy, work and heat equal to  $10^{12}$  joules

### Total Recordable Case Frequency Rate

the number of Recordable Cases occurring per million hours worked

### TRI

Total Recordable Injuries

### Total Recordable Injury Frequency Rate or TRIFR

the number of Recordable Injuries occurring per million hours worked

### UK

United Kingdom

### Underlying Profit/(Loss)

profit/(loss) for the year after adding back items which are non-recurring or variable in nature and which do not impact the underlying trading performance of the business and their resultant tax and non-controlling interest effects. Underlying Profit/(Loss) is set out in note 13(b) to the consolidated financial statements

### US

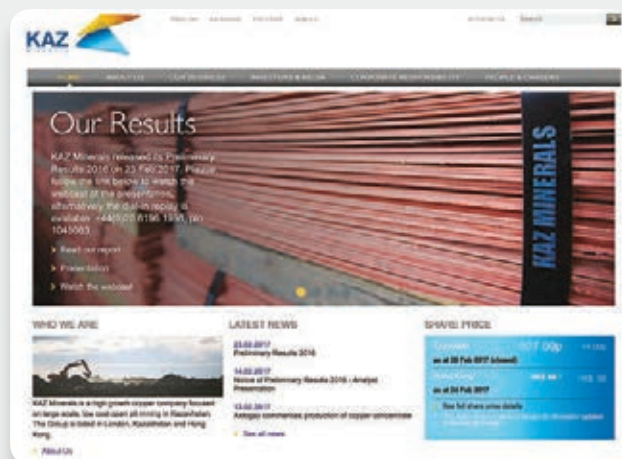
United States of America

### USc/lb

US cents per pound

For all the latest information  
and to find out more about the company,  
please visit our website  
[www.kazminerals.com](http://www.kazminerals.com)

Our corporate website houses the most  
up-to-date information about KAZ Minerals  
as well as detailed investor and media sections.



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KAZ  
MINERALS



KAZ Minerals PLC  
6th Floor, Cardinal Place  
100 Victoria Street  
London  
SW1E 5JL  
United Kingdom

Telephone +44 020 7901 7800  
Facsimile +44 020 7901 7859  
Website [www.kazminerals.com](http://www.kazminerals.com)