





Directors' Report: Business Review

RESPONSIBILITY

50 Corporate Responsibility



ASTANA COLLEGE

A new college for orphans, where students learn skills for employment and living. Kazakhmys has the largest social spend of any company in Kazakhstan.

Directors' Report: Business Review

CORPORATE RESPONSIBILITY

Our business contributes to local communities and wider society by providing vital resources for social and economic development, and by creating wealth and employment in remote and underserved communities. We are a major contributor to the economy of Kazakhstan and provide substantial support for Government infrastructure and services at a local level.

We fully understand that, alongside providing these benefits, we must operate responsibly by providing fair, safe and healthy workplaces, protecting the environment and developing communities. Doing so will directly enhance shareholder value, our primary objective, by increasing access to capital and lowering operational costs. Operating responsibly will also boost our reputation and maintain the cooperation of local communities, as well as helping us attract and retain the best employees.

We continue to develop our data collection systems for corporate responsibility, so that reporting is in line with international standards. Unless otherwise stated, the information within this report is for our Copper and Power Divisions, which in 2009 represented 96% of our total workforce and 70% of turnover.

MANAGING CORPORATE RESPONSIBILITY

Good health, safety and environmental (HSE) management is not just responsible, it is essential for efficient, cost-effective operations. As a UK-listed company, our shareholders expect our management practices to meet international standards, and we are working hard to ensure this is the case. As a minimum we comply with the law in each country where we operate. For instance, Kazakhstan law stipulates limits for emissions to air and water, contractual obligations to employees, social investments under licence agreements, and standards of health and safety. We go beyond compliance where practicable. Our approach is to manage HSE risks at a local level, with oversight from the Group.

Organisation and responsibilities

The Board of Directors has a Group HSE Committee, led by the Senior Independent Director, Philip Aiken. This oversees the implementation of HSE policies, sets related standards, monitors performance and guides operational management. The Committee meets three times per year, always combining formal meetings with site visits.

Our Group Head of HSE, who in 2009 reported to the Development Director, coordinates the implementation of HSE policies and systems throughout the Group and advises the Group HSE Committee on progress.

A Fatal Accident and Serious Incident Review Panel assesses each fatality and serious incident investigation and the action taken as a result. This panel comprises of the Group HSE Committee, the Chief Executive, relevant senior managers and Jeff Smith, a former chairman of Wardell Armstrong LLP, an independent safety expert.

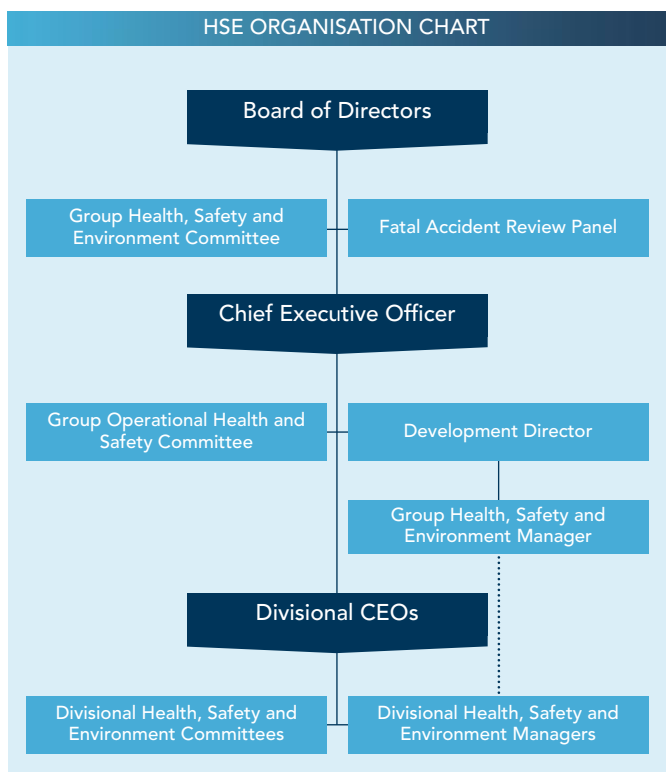
Each of our businesses has an operational HSE committee chaired by its general manager and comprising senior operational and HSE managers. These operational committees are responsible for developing policies and systems, reviewing incidents and improving performance. The Copper Division's committee met three times in 2009, and discussed items including occupational injury and illness rates; safety and environmental controls, training and certification; and disciplinary action taken in response to poor safety performance.

Divisional HSE teams implement our policies and systems on a day-to-day basis. Every employee is responsible for their own safety, for others affected by their actions, and is required to follow our HSE policies and procedures at all times.

Policies and management systems

Each division has HSE policies in place which describe their commitments and responsibilities in these areas. These are based on guiding principles agreed at Group level. The Copper Division is in the process of integrating its management systems for health and safety and environment, and is recruiting specialists to do so effectively. As part of this work, the East Region has developed a new HSE management structure, which it plans to test in 2010. If this model proves successful we will roll it out across the Copper Division.

At the end of 2009, 17 facilities were certified to the international environmental management standard ISO 14001, of which seven received their certification in 2009. Fifteen copper sites held the OHSAS 18001 health and safety certificate, the same number as in the previous year. Implementing the standard has not had a noticeable impact on reducing fatalities and, whilst we continue to ensure our management systems reach international standards, we do not plan to pursue further formal certification at this stage. We believe it is better to focus our efforts and investment on operational measures to directly improve performance.



In 2009, we began to develop a broad set of key performance indicators (KPIs) for measuring our progress on corporate responsibility. We plan to start measuring these KPIs over the course of 2010 and will begin reporting on them when data is available.

HEALTH AND SAFETY

Mining and processing copper and minerals involves working with large, heavy equipment, explosives and hazardous chemicals – often underground and sometimes at extreme temperatures. Our employees also experience common workplace hazards from driving vehicles, working at heights and operating machinery.

We believe it is challenging but entirely possible to prevent accidents, as long as the right approach and management systems are in place and sufficient equipment and training provided. Our long-term ambition is to provide a safe workplace free from injuries and illness, though we acknowledge that this will require considerable management focus and investment.

Fatalities

We deeply regret that 15 employees lost their lives in 14 separate incidents at Group operations in 2009, a rate of 2.4 fatalities per 10,000 direct employees. Thirteen of these were in the Copper

Division, one in the Power Division, and one in the Gold. Two contractors in our Power Division also sadly died. We will report contractor fatalities across the Group in the 2010 Annual Report.

Rock falls were the most common cause and led to eight deaths. See the case study below for examples of our efforts to reduce this kind of incident. Four fatalities involved moving machinery. There was a substantial reduction in falls from height, the primary cause of fatalities in 2008.

While every death is a tragic loss, there has been a 53% decrease in the number of fatalities since 2008. Our operations investigated every fatal incident and serious incident and reported their findings to the Group HSE Committee and, where appropriate, to the Fatal Accident and Serious Incident Review Panel. Our fatality and serious incident investigation reports comprise a full description of the incident including photographs and sketches, plus an analysis of the work area, procedures followed and protective equipment used. This information is used to identify the root cause of the incident and preventative measures for the future. The reports are sent to the divisional Chief Executives and HSE committee chairman within 48 hours of completing the investigation.

COMMITTED TO RESPONSIBILITY



PREVENTING ROCK FALL

Our operations are introducing new technologies to prevent rock falls and roof collapses – the most common cause of fatalities in our operations.

For example, we have been working with mining engineers Minova CarboTech on ways to strengthen rock. Our Artemyevsky and Orlovsky mines are testing Minova's roof-bolting systems for tunnelling, as well as sealants and resins for filling cavities and backfilling behind arch supports. The rock surrounding both mines is unstable, increasing the risk of roof falls after blasting or down-time. We usually backfill the dome folds resulting from these rock falls with materials such as concrete and timber, but roof collapses can still occur. In 2009, this led us to suspend some operations for over two months, but work resumed after backfilling with Minova's Carbofill phenolic resin foam,

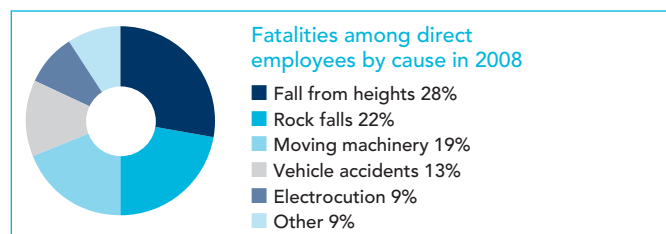
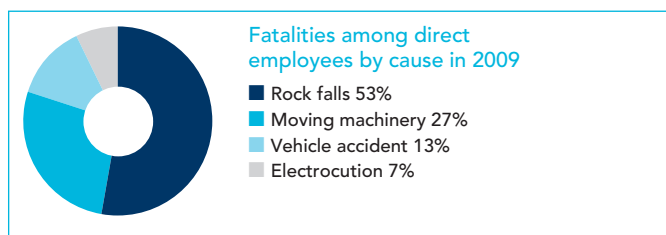
reinforced by metal arch supports. One square metre of this solidifying foam can support up to 12 tonnes of rock, substantially reducing the risk of rock falls and roof collapse.

In 2009, we installed a seismic monitoring system at our Zhomart mine to identify changes in the stress-state of the rock, caused by mining. We have used a similar system at Zhezkazgan since 2007, where it has forecast all subsequent rock falls and collapses of any significance. The Zhomart mine's system can record even small fractures induced by mining. The underground and surface sensors record around 60 signals a day, which we use to identify the coordinates of fractures and assess changes in the rock. This allows us to determine trends in the spread of rock fractures and predict problems before safety is compromised. We plan to install seismic monitoring at mines in other regions, starting in 2010 at our Orlovsky mine in the East Region, which is particularly prone to rock bursts.

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CORPORATE RESPONSIBILITY CONTINUED

We attribute the reduction in fatalities to improved production controls, a greater emphasis on management responsibility and an increase in the number of site inspections. We carried out 2,759 site inspections in 2009 and stopped operations on 830 occasions as a result of the safety violations found. We carried out disciplinary proceedings with 1,975 employees in relation to these violations, and 49 employees lost their jobs. We recognise that serious injuries and fatalities can cause both emotional and financial difficulties to employees and their families, and we provide financial support to the families of the victims of fatal accidents.



Injuries

We record work-related accidents in line with Kazakhstan's regulatory reporting requirements. We are in the process of introducing the industry standard lost-time injury frequency rate, and will report this figure when it is available. There may be an initial rise in the number of accidents reported, primarily as a result of improved safety training and greater awareness of the need to report incidents.

MKM recorded an injury frequency rate of 15 per million hours worked in 2009, down from 34 in 2008.

Safety culture

A safety culture built on training and awareness is fundamental to reducing accidents. Our health and safety policies are available in English, Russian and Kazakh, and each employee receives a pocket guide explaining 16 mandatory safety rules. During 2009, 10,440 employees received safety training, including 8,795 manual workers and 1,645 engineers and technicians.

In 2009, we reported a goal of training all senior managers and engineers in the NEBOSH occupational safety and health certificate. We now plan, however, to introduce an internal certification based on the NEBOSH qualification. We have invited an external specialist to develop an internal, mining-specific certificate in 2010, and to train up to 20 of our managers, who will pass on their training to their colleagues.

In 2009, the Copper Division introduced a five-year health and safety management plan to reduce hazards, improve performance and further embed a safety culture. The first phase involves reviewing our approach, structure and management system to ensure we systematically identify, assess and control all risks. Once this is complete, operational sites will develop and implement their own management plans within six months, and these will be approved by the Group and Copper Division HSE departments.

These site-specific plans will detail activities and define timetables and responsibilities for completion, as well as the required budget and resources. The Copper Division operational HSE committee is in the process of identifying five priority projects for improving performance,

and will report their progress at Group HSE Committee meetings during 2010.

Our Zhomart copper mine invested almost \$3 million to improve safety in 2009. The mine purchased new underground vehicles and provided specialist training and certification for their operators, who then pass on their knowledge to apprentices working with them. The new vehicles are soundproof and air-conditioned, and are fitted with additional lighting and rear-view cameras to improve visibility. The mine also built an underground service station for the vehicles, which has automated many hazardous maintenance tasks to further improve safety.

Occupational health

Our aim is not only to prevent occupational ill health occurring, but to improve the health and wellbeing of employees, contractors, their families and communities. All employees receive medical examinations on recruitment and then on an annual basis, to prevent occupational diseases and detect and treat those that do occur at an early stage. We pay particular attention to employees whose work exposes them to health risks such as dust-induced lung disease and hand-arm vibration syndrome.

The Copper Division has an occupational disease rate of 4.3 cases per 1,000 employees, and recorded 182 new cases in 2009. The shaft-sinking department has the highest rate of occupational illness, with 14.6 cases per 1,000 employees. The professions most likely to experience occupational disease are tunnellers (23 cases per 1,000 employees), truck drivers (21 cases per 1,000 employees) and blasters (15 cases per 1,000 employees).

Most work-related illness in 2009 related to manual handling and spinal micro-trauma from riding in vehicles on uneven surfaces. We recorded 65 cases of chronic radiculopathy, a nerve problem that causes pain and numbness. Exposure to mine dust is the next most common cause of occupational disease, leading to 55 cases of silicosis and chronic bronchitis in 2009. We will be upgrading respirators across our facilities in 2010, to reduce the occurrence of respiratory disease.

In 2009, the Copper Division developed a three-year health protection programme to ensure all facilities meet the requirements of our health and safety policies. We are recruiting seven occupational health specialists across the Division to help prevent, diagnose and treat work-related illnesses. Future plans include establishing a dedicated medical committee and the introduction of a standardised employee health monitoring system. The programme will ensure all sites have sufficient first-aid training, underground ambulance transport for emergency medical aid, and modern equipment in their health units. We also plan to establish rehabilitation centres for employees with work-related injuries and occupational diseases.

2010 commitment

- Identify five priority projects within the Copper Division for improving safety performance.

EMPLOYEES

Kazakhmys is one of Kazakhstan's largest employers, with our 61,629-strong workforce representing around 0.8% of employed people in the country. We aim to provide good working conditions, to treat employees with respect and uphold their human rights at all times.

Each division has employment policies appropriate to the cultural and legal requirements of its country of operation. These policies cover all aspects of employment and are designed to recruit and retain talented and motivated employees across the company.

Pay and benefits

Competitive remuneration is essential for recruiting and retaining a talented workforce. An internal benchmark carried out in October 2009 shows that the wages our Copper Division pays are higher than both average wages in Kazakhstan and the salaries paid by other large mining companies in the country.

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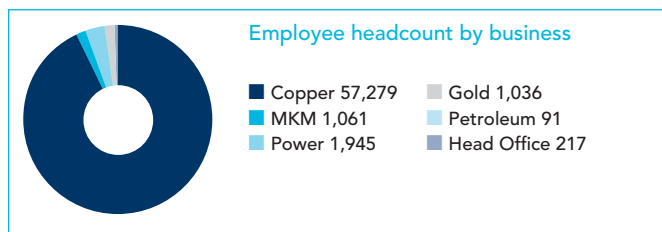
NURTURING TALENT

In 2005, we selected two talented young engineers to study for a Masters degree at Beijing Science and Technology University.

After interviewing 10 applicants, we chose two engineers, Sabira Makhambetova and Natalya Mutayeva, who worked at the Zhezkazgan and Satpayev facilities respectively. These applicants displayed a high level of professional qualification, good knowledge of economics and production management, and excellent communication skills. Both chose to study for a Masters degree in enterprise management, from a list of relevant courses offered by the Company.

In 2009, both engineers completed their studies and returned to higher-level, better paid positions at Kazakhmys. Sabira now works as an economist in our capital construction investments department, and Natalya has become an equipment engineer in the procurement team.

Says Sabira, "I am able to exploit all the skills I have acquired – understanding of economics and knowledge of Chinese – as our department closely works with Chinese partners. I am grateful to Kazakhmys for providing me with such an opportunity to acquire a new speciality and to experience living in an exciting and completely culturally different environment."



Kazakhmys contributes to defined contribution pension schemes in Kazakhstan, Germany and the UK. These contributions are a legal requirement in Kazakhstan. The Company has share plans for senior executives, which are described on page 75.

Our Copper Division in Kazakhstan provides medical and dental services at no cost to current employees, and at less than half price for their families and retired employees. In 2009, medical facilities across the Copper Division treated 15,657 people, of whom 6,380 were employees, 937 were retired employees and 2,213 employee family members.

The Copper Division also provides leisure facilities to employees and their families. It owns two health resorts, a holiday facility and six children's summer camps. In 2009, 4,395 employees and 637 retired employees visited health and holiday facilities paid for by Kazakhmys. Over 4,000 of our employees' children spent their holidays at our summer camps.

Training and development

Training is essential for employees to do the best job they can. We invest in training and education for employees of all levels. We provide formal education at colleges and universities, as well as courses in mining specialities at our own training facilities. Our purpose-built technical college in Satpayev offers classroom training as well as operational and safety training both above and below ground.

At the end of 2009, we completed construction of a second technical college at Balkhash, where we will open a similar training centre for employees in 2010. We require all employees to pass periodic operational, health and safety refresher courses and tests, and help many employees to retrain in a new speciality to help them develop their careers with us.

In 2009, 25,808 employees received professional training at our technical college, universities and mining schools in Kazakhstan and abroad. There are currently 388 continuing their training at our technical college, 33 at Kazakhstani universities and 31 abroad. In 2009, the Copper and Power Divisions spent over \$900,000 on external training, although this does not include the cost of running our own training centres.

Equality and diversity

We want to provide a fair and diverse workplace free from discrimination. This benefits employees, and ensures we profit from a workforce that reflects the local population and the variety of skills and experience within it. We are committed to recruiting, developing, training and rewarding employees based on merit. We employ disabled people with relevant skills, provided they can work safely.

Recruiting women is a challenge throughout the mining industry. In our Copper Division, around 35% of all employees, including many of our engineers, and 22% of managers are women.

Within Kazakhstan the Group employs a small number of non-Kazakh nationals, generally where there is a skill shortage or where those individuals bring particular experience or abilities which is unavailable. A key aim is to ensure a transfer of skills and knowledge to existing employees, in order to benefit the local workforce and reduce dependence on 'expat' labour.

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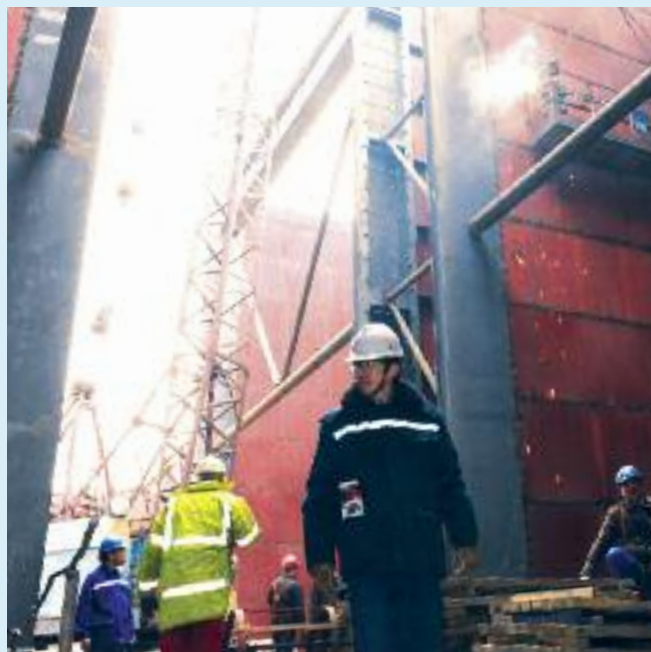
CORPORATE RESPONSIBILITY CONTINUED

COMMITTED TO RESPONSIBILITY

IMPROVING AIR QUALITY

We are installing electrostatic precipitators, developed by pollution control specialists Lodge Cottrell, at the Ekibastuz GRES-1 power station. Once installation is complete, these will capture 99.85% of ash in the air and reduce particulate emissions by an estimated factor of four – substantially improving local air quality. We plan to fit the precipitators to all eight power units at Ekibastuz GRES-1 by 2013, and are in the process of testing the first unit, installed in 2009.

In 2009, we also introduced new coal burning technology at Ekibastuz GRES-1, developed by PolytechEnergo (Russia). Combined with the new precipitators, this technology will further reduce emissions. The new technology provides an alternative to conventional dust-firing and will allow the furnace to burn optimum-quality design coal as well as lower-grade coal. This will increase fuel efficiency, reducing emissions of nitrogen oxides by over 30%. Another advantage is that the new technology enables coal particles to coarsen, and ash from burning coarsened coal has a greater surface area and is more easily collected by the precipitators. This increases the flue-gas purification rate. Whilst it is a first in Kazakhstan, the technology is tried and tested, as PolytechEnergo has installed it in over 50 projects in five countries.



Consultation and communication

Keeping employees informed about our business strategy and matters that affect their work is critical to maintaining a loyal and motivated workforce. We communicate with employees in a variety of ways, primarily through face-to-face conversations between managers and their teams, email, and also through a company-wide internal newspaper and intranet site, both established in the past year.

Most employees are represented by trade unions, which negotiate collective employment agreements with our divisions. In Germany, employees are represented by a works council and approximately 55% of employees are members of the IG Metall union.

In 2009, the trade union representing employees in Kazakhstan engaged with management on issues including living and working conditions, food provision, and health and safety. We also negotiated on measures implemented in response to the global recession and resulting collapse in copper prices. These include the suspension of several social benefits such as preferential prices at health centres, and a shortened working week for certain employees. The union held almost 100 meetings during the year.

Our Youth Union boasts almost 18,000 members and supports younger employees joining the Company. All copper staff under the age of 35 are free to join. The Youth Union runs work-related competitions plus cultural and sporting events, as well as organising charitable and volunteering projects.

2010 commitment

- Open our second employee training centre at the new Balkhash technical college.

ENVIRONMENT

Mining has substantial impacts on the natural environment, and we aim to manage and minimise these both during operations and after site closure. This means using energy, water and other resources efficiently; reducing greenhouse gas emissions, waste, and emissions to air, land and water; and responsibly managing and restoring our land to prevent loss of biodiversity.

As part of the integrated HSE management systems our divisions are implementing, we are putting in place measures to systematically identify and control our environmental impacts, and ensure we consider them when making operational decisions. A programme

of environmental auditing is providing a performance baseline to improve on and help us monitor progress.

Independent specialists KazEcoProject carried out environmental audits at 48 copper facilities between November 2008 and May 2009. Whilst they made some recommendations for improvement, the auditors concluded that our Copper Division complies with Kazakhstan's environmental regulations, such as permitted emissions and effluent levels. In addition, our environmental protection teams performed 340 internal inspections in 2009. These resulted in a plan to install more water meters at our copper operations to improve usage measurement.

We make mandatory payments for the industrial effluent we create, such as waste water discharge, tailings, ash and slag, and report emissions to the relevant authorities quarterly. These payments amounted to \$36 million in 2009 for the Copper Division. Environmental regulators carried out 96 inspections at our copper operations during the year to assess compliance with regulatory requirements.

We have commissioned London-based Golder Associates to perform a comprehensive audit in 2010, which will evaluate the Copper Division's social and environmental performance in detail, and assess our compliance with the requirements of the World Bank and European Bank for Reconstruction and Development. We will use the resulting recommendations to develop a medium-term environmental action plan.

Energy use and greenhouse gas emissions

At Kazakhmys we produce significant greenhouse gas emissions through electricity use and heat production at our mines and production facilities, coal combustion in our four power stations and fuel use in our vehicles. Increasing legislation relating to greenhouse gas (GHG) emissions from the use of fossil fuels may pose long-term risks to our coal mining, power generation and petroleum exploration businesses.

We are committed to reducing GHG emissions from our operations through energy efficiency and the use of technology. In 2009, total energy use in our Copper and Power Divisions was 15.9 petajoules.

Total GHG emissions were 21.6 million tonnes of carbon dioxide equivalent (CO₂e) for the two businesses combined – 10.7 million tonnes for copper and 10.9 million tonnes for power. This increase

in CO₂e from the copper business is because, in 2009, the Kazakhstan Ministry of Environment changed the method it provides for calculating methane and nitrous oxide emissions. Our purchase of the Ekibastuz GRES-1 power plant has clearly caused a large increase in companywide emissions.

Emissions to air

Our copper smelters produce substantial amounts of sulphur dioxide (SO₂) which, if released, reduces air quality and aggravates asthma and other breathing difficulties. Other emissions associated with our operations include nitrogen oxides (NO_x), arsenic, ash and dust. We monitor and work hard to reduce all emissions our operations release to air.

In 2009, our copper smelters released 189,099 tonnes of SO₂ compared with 492,970 tonnes in 2008. This significant reduction is due to our sulphuric acid production plant at Balkhash, which is transforming SO₂ emissions from the complex's copper operations into a valuable by-product, greatly reducing the amount of the gas released to air. By the end of 2009, production levels had risen to almost 800,000 tonnes of sulphuric acid after 18 months of operation – and used 75% of the SO₂ emissions produced. The remaining SO₂ emissions for the plant totalled 105,514 tonnes during the year, well below the permitted limit of 126,904 tonnes.

Water use and emissions

Water supplies are coming under increasing pressure in many parts of the world as populations grow and industrialise. Mining uses large volumes of water, posing the risk of competition with local communities in regions where water is scarce.

In Kazakhstan, water availability varies significantly by season and geography. In some areas where we operate, water is scarce, especially during dry seasons. This makes efficient water use critical to the long-term viability of a number of operations. In addition, all sites need to carefully control the effluent they discharge into local waterways, to avoid pollution and maintain local water quality.

Total water use decreased by around 46% to 129,183 megalitres in 2009 (2008: 240,624 megalitres). There are three reasons for this large reduction. Firstly, the 2008 figure includes some water used by local communities, as well as our operations. This will be excluded in all future water data. Secondly, we suspended zinc operations at Balkhash. Finally, in Zhezkazgan, which suffers droughts in the dry season, our copper operations have introduced a water recycling system to reduce usage, as well as discharges into the Kara Kengir river. Over five million cubic metres of treated operational and municipal wastewater are now provided to underground mining operations at the South and Stepnoy mines.

Increasing economic pressures and inefficient water use are endangering ecosystems in the Ili-Balkhash basin. In October 2009, we signed a water use agreement as part of an integrated water management plan for the area being developed by the Regional Environmental Centre for Central Asia. This commits us to a series of measures to reduce water use and effluent over time. Examples include improving the pipeline feeding the local settlement, and the installation of a water recycling system that will reduce annual water withdrawal from Lake Balkhash by 87 million cubic metres.

Land management

We recognise the need to minimise land disturbance and protect biodiversity throughout the life of our operations. Local legislation requires us to rehabilitate sites that have closed down. The Copper Division sets aside provisions for this purpose as a condition of its contracts and licences for subsoil use, and this amounted to \$37 million as of 31 December 2009 (2008: \$48 million). The reduction is due to the 25% devaluation of the tenge early in 2009.

Our operations carried out various land management activities in 2009, such as using overburden, ash and slag to backfill mines and restore landscapes, and planting greenery on and around our sites. For example, in 2009 the Copper Division hired a local contractor to

Copper Division SO₂ emissions (tonnes)

189,099



Copper Division CO₂ equivalent emissions (million tonnes)

10.7



1 Method for calculating emissions changed in 2009.

2 This figure has been restated from 9.2 MT in the 2008 Annual Report, as it now includes emissions from the East Region, which we previously reported separately.

restore a 3,500m² former stone quarry at its Belousovsky mine, previously used to store ash and slag. The first phase of the restoration comprised levelling the area and laying subsoil and topsoil. The second phase of reinstatement will focus on promoting biodiversity, although the area is fertile and we expect many plants to grow back naturally.

Waste

Mining, metallurgical operations and power generation create large amounts of waste, which can cause environmental pollution if not properly disposed of and is visually unappealing.

Our mining operations produce waste rock and overburden, which we store in dumps and often use to backfill mines and when rehabilitating sites after closure. Copper smelting produces tailings and slag, which is classed as hazardous waste and must be securely contained in dams to prevent leaching into the soil and water sources. Our power plants create solid wastes such as fly ash and slag. Other wastes created include sludge from our wastewater treatment facilities, slime from our sulphuric acid plant and general waste.

In 2009, our Copper and Power Divisions generated 70 MT of waste, down from 120 MT in 2008. We continue to seek additional ways to beneficially reuse our wastes, for example in brick production. The Copper Division has also opened a tyre-recycling plant in January 2010, see the case study on page 56.

Environmental awareness

Increasing awareness of the causes and effects of environmental damage is essential for changing behaviour and improving performance. In 2009, we took part in a variety of events to this end.

These include:

- The Kazakhstan Environmental Protection Ministry's exhibition of natural resource companies;
- Public hearings in Ust-Kamenogorsk, Eastern Region, also attended by Kazakhstan's Environmental Protection minister;
- Meetings with the Environmental Protection Ministry at Nura-Sarysu;
- A workshop on climate change and ratification of the Kyoto Protocol held by the Climate Change Coordination Centre, a Kazakhstan-based non-governmental organisation;
- A workshop on environmental problems in the Karaganda region;
- We also wrote and published various environment-related articles and editorials in the local and national media.

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CORPORATE RESPONSIBILITY CONTINUED

2010 commitment

- Develop a medium-term environmental action plan based on the results of the audit carried out by Golder Associates.

COMMUNITIES

Our presence brings many benefits for communities, such as employment, opportunities for local suppliers and investment in local infrastructure. At the same time, our operations can cause problems such as increased noise, dust and traffic, so it is essential that we work closely with local people to minimise disruption and ensure they benefit from our business.

In many places, the local community only exists because of our operations. Our social investment is therefore not simply philanthropy – our business depends on the development of communities where our employees and their families can thrive. We have a long history of close involvement with local communities and, while this relationship will evolve, we will probably retain a stronger social commitment than many other major resource companies.

In Kazakhstan, engagement about operational activities that may affect a community generally takes place through the local authority. However, we increasingly consult directly with local communities. For example, in 2009 we met local families at Bozshakol and agreed to provide access to a graveyard found within the project boundary. Should the project expand, we will relocate the graves to a safe location in close consultation with both the community and authorities.

Economic impacts

Kazakhmys is one of the largest employers and taxpayers in Kazakhstan, and our Kazakh revenue represents 2.5% of the country's gross domestic product. The vast majority of our 61,629 people are Kazakhstan citizens, whose income taxes and spending also contribute to the national economy.

We are committed to helping further develop the Kazakh economy and in 2009, along with the Government, founded Made in KZ, a programme to support small and medium-sized companies in the country. We are dedicated to purchasing products, equipment and services from these companies wherever they are available at the right quality and price.

In September 2009, we held a conference for local companies in Karaganda, and invited them to tender for contracts to supply Kazakhmys. We also announced plans to finance projects aiming to increase local companies' capacity to supply us. Following the conference, 122 companies expressed an interest. We are already working with 67 of these and have signed contracts totalling \$134 million for products ranging from construction materials to tools and uniforms. In October, we took part in a similar, Government-run conference in Pavlodar, and renewed contracts with nine suppliers in the region as a result.

Our Copper Division has established a dedicated working group for local enterprise development. In December 2009, we also established a local procurement working group comprising procurement specialists from all areas of the Copper Division. The working group visited suppliers in Karaganda, Pavlodar and East Kazakhstan to assess their products and production processes and raise awareness of our commitment to local purchasing. The Copper and Power Divisions spent \$867 million on goods and services from Kazakhstan suppliers in 2009 – around 44% of total spending on goods and services.

The Copper Division has centralised purchasing to ensure greater quality control. In 2010, we will introduce standard, higher-quality personal protective equipment across all copper facilities. This will be produced for us by a local contractor, using materials we purchase overseas.

COMMITTED TO RESPONSIBILITY

FOSTERING ENTERPRISE DEVELOPMENT

Our Copper Division has invested over \$7 million in Kazakhstan's first tyre-recycling facility, bringing operational, economic, employment and environmental benefits.

Tyres for mining vehicles such as dump trucks and loaders are costly and in short supply in Kazakhstan. To overcome these problems, our Zhezkazgan operations will send their used tyres to the new MysShina plant for the worn-out tread to be renewed, and we will buy back the re-treaded tyres for 40% less than the cost of a new tyre. Because the plant is close to our mines, this approach will also reduce transport costs. As the lack of recycling facilities meant used tyres were previously sent to landfill, re-treading the tyres also reduces our environmental impact.

The plant has created 100 new jobs for local people, many of whom were unemployed. Each year it will re-tread about 2,000 tyres, using technology developed by German company Schelkmann, which supplied the equipment and trained our employees. The new recruits received around six weeks of classroom training before passing an exam. Initial trials confirm that our investment will provide a significant return.



COMMITTED TO RESPONSIBILITY

RESPECTING CULTURAL HERITAGE

There are several important archeological sites located within the boundary of our Bozshakol copper project in northern Kazakhstan, which we are taking great care to protect. In 2009, we selected expert archaeologists to carry out detailed surveys, document the artefacts found, establish whether they could be safely removed, and carry out the excavations. The Margulan Archaeology and Ethnography Institute in Almaty supervised all work.

Detailed surveys confirmed the presence of 25 separate archeological sites, 15 of which were previously undiscovered. These span a timeframe from 350,000 years ago through to the late medieval period, providing a comprehensive picture of cultural development in north-eastern Kazakhstan. There are six Stone Age sites, a Bronze Age settlement, five Iron Age burial mounds, medieval burial sites, primitive mines and ceremonial monuments.

The sites, along with artefacts found there such as knives, tools, copper ore and bronze bullion, prove that ancient peoples in the area were highly developed in their use of metals and other materials. These artefacts have been carefully excavated, and we plan to open a museum at the site to house them.



Community and infrastructure development

Our Copper Division invests heavily in the construction and maintenance of social facilities such as schools and hospitals, and the development of roads and infrastructure near our operations. We concentrate our efforts on projects closely related to our operations, ensuring our investment benefits the business as well as communities and strengthens our ties with local people.

In 2009, the copper business invested just under \$88 million in education, healthcare, sports and culture, infrastructure and the environment, and sponsorship and charitable donations. This includes capital expenditure and ongoing support for facilities, and is by far the largest programme of its kind in Kazakhstan.

Education is one of our priorities. We are the largest corporate contributor to education in Kazakhstan, and allocate \$20 million annually for this purpose. The Group runs 37 nursery schools and provides financial support to schools and orphanages located near its operations. These include a boarding school in Astana for orphans and children from low-income families – the first of its kind in Kazakhstan. Opened in September 2009, the school cost \$30 million to build and can take up to 700 students each year. There were 215 students at the end of 2009. The school is equipped with workshops, interactive classrooms and a media library, as well as a driving school, swimming pool and sports complex. Students will gain qualifications in construction, transport, metalwork and catering, as well as benefiting from accommodation, medical services and broader skills development.

Our technical college in Balkhash is designed to train 1,300 students a year in specialist skills for the mining sector. Opened in September 2009, the college has 245 full-time and 307 part-time students training in various technical and mining-related subjects. A training centre for employees will open at the college in 2010. Tutors from the college currently train employees on-site. A similar college in Satpayev has already seen 200 graduates complete their training since opening in September 2008.

Every year, Kazakhmys sponsors over 200 university and college students to complete their education in Kazakhstan or abroad. Our operations also provide internships for local college students. For example, the Ekibastuz GRES-1 power station provides placements for students from Ekibastuz Polytechnic, and three college students began internships in November 2009.

We also invest in projects that encourage young people to participate in sports. March 2009 saw the completion of the Kazakhmys-sponsored reconstruction of the Ulytau Sports Palace in Zhezkazgan. This facility includes a number of sports halls and a health centre, where 800 people each day can take part in sports including volleyball, basketball, rugby, tennis, wrestling and boxing.

2010 commitment

- Continue work on a variety of community and infrastructure development projects, including a kindergarten, park, museum, sports stadium in Zhezkazgan, water infrastructure at Uaitas-Aidos and a national library and learning facility in Astana.

