



## Eurasian Natural Resources Corporation PLC

### Announcement of 2008 Preliminary Results

#### Financial Highlights for 2008

- **Record Set of Results:**
  - Revenue of US\$6.8 billion, up 66%; revenue, excluding new businesses, up 47%;
  - Underlying EBITDA of US\$4.2 billion, up 117%;
  - Underlying EBITDA margin of 61% (2007: 47%);
  - First time incremental underlying EBITDA contribution from Serov and the new aluminium smelter of US\$0.3 billion;
  - EPS (before exceptional items) of 205 US cents, up 111%; and
  - Final dividend of 19 US cents per share; full year dividend of 31 US cents per share. Dividend payout ratio of 15%.
- **Control of Costs** - total costs (excluding exceptional items) increased 19%. Cost of sales, excluding the new businesses, increased 7%. Management focused on the tight control of costs, particularly materials and labour, and improving production efficiencies.
- **Strong Balance Sheet.** Net available funds of US\$2.0 billion. Operating cash flow increased US\$1.7 billion to US\$2.8 billion.

#### Business Highlights for 2008

- Strong growth for the first nine months of 2008 buoyed by strong commodity prices, particularly for ferroalloys and iron ore, and steady production growth.
- The new aluminium smelter achieved its Phase 1 capacity run rate of 125 thousand tonnes in Q2 2008, well ahead of schedule.
- We completed the acquisitions of the Serov ferroalloys business and of stakes in Tuoli and BML.
- Management took timely and decisive steps early in Q4 2008: to deal with the unprecedented economic downturn; production cutbacks implemented (approximately 35% for ferroalloys and 50% for iron ore); labour and raw material costs reduced; and expansionary capex projects deferred (total capex in 2008 was US\$1.3 billion).

#### Outlook for 2009

- Production cutback in Ferroalloys to be maintained at 35% with Iron Ore at 40%, at least through H1 2009. Key to any recovery will be the end to destocking.
- Whilst sales volumes so far in Q1 2009 have been better than expected, it is not yet clear that this is sustainable. Any sustained recovery before 2010 seems unlikely, though with a continued lack of visibility it is difficult to predict.
- Continued reduction of operating costs and the recent Kazakhstani tenge devaluation should help us maintain our very competitive cost curve position.
- Working capital under control.
- Dividend policy reaffirmed with a commitment to maintain a payout ratio of 15%-20% of earnings, until visibility of the business cycle improves.
- Current valuations of international mining assets offer good acquisition opportunities, which we are well positioned to capitalise on due to our strong balance sheet.
- Acquired a 25% stake in Shubarkol, a major semi-coke and thermal coal producer in Kazakhstan, in February 2009, with the objective of reducing raw material costs.
- Succession: Dr Sittard has agreed to continue as CEO up to 30 September 2010. Miguel Perry, CFO, is to leave the Group on 30 June 2009.

*"2008 was a record year for the Group. We believe that our response to the economic downturn will stand us in good stead to manage through 2009. Most importantly our focus on cost management, coupled with the strategic location of our assets, will ensure that we are well positioned to capitalise on expected future growth in China and Russia. Additionally, our strong balance sheet provides us with the opportunity to exploit value-enhancing acquisition opportunities."*

**Dr. Johannes Sittard, Chief Executive Officer**

**Summary Group Financial Information (Unaudited):**

Year ended 31 December

In millions of US\$	2008	2007	%
<b>Revenue</b>	<b>6,823</b>	4,106	66.2%
Costs <sup>(1)</sup>	<b>(2,973)</b>	(2,503)	18.8%
<b>Underlying EBITDA<sup>(2)(9)</sup></b>	<b>4,161</b>	1,918	116.9%
Depreciation and amortisation and impairment	<b>(311)</b>	(303)	2.6%
<b>Underlying EBIT<sup>(3)</sup></b>	<b>3,850</b>	1,615	138.4%
<b>Profit before tax</b>	<b>3,827</b>	1,321	189.7%
<i>Effective tax rate</i>	<b>29.9%</b>	38.4%	
Net profit attributable to shareholders	<b>2,642</b>	798	231.1%
<b>Earnings per share – basic and diluted (US cents)<sup>(4)</sup></b>	<b>205</b>	79	159.5%
<b>Earnings per share – basic and diluted (before exceptional items) (US cents)<sup>(4)(8)</sup></b>	<b>205</b>	97	111.3%
<b>Group interim dividend per share – (US cents)</b>	<b>12</b>	n/a	
<b>Group final dividend per share – (US cents)</b>	<b>19</b>	n/a	
<b>Underlying EBITDA margin<sup>(5)</sup></b>	<b>61.0%</b>	46.7%	
<b>Net cash generated from operations</b>	<b>2,766</b>	1,079	156.3%
Capital expenditure	<b>1,294</b>	911	42.0%
Gross available funds <sup>(6)</sup>	<b>2,768</b>	2,921	(5.2)%
Net cash <sup>(7)</sup>	<b>1,766</b>	1,124	57.1%
<b>Divisional underlying EBITDA</b>			
Ferroalloys	<b>2,789</b>	1,140	145.3%
Iron Ore	<b>919</b>	470	95.5%
Alumina & Aluminium	<b>295</b>	214	30.0%
Energy	<b>177</b>	107	65.4%
Logistics	<b>50</b>	44	13.6%
Corporate	<b>(69)</b>	(57)	3.0%
<b>Group</b>	<b>4,161</b>	1,918	116.9%

<sup>1</sup> Costs: cost of sales; distribution costs; selling, general and administrative expenses; and other operating expenses – net (excludes costs incurred in 2007 in relation to the Initial Public Offering, which are classified as exceptional items).

<sup>2</sup> Underlying EBITDA: profit before finance income, finance costs including the related foreign exchange gains and losses, income tax expense, depreciation, amortisation and impairment, net losses on derivatives not qualifying for hedge accounting, share of income or loss on joint ventures and exceptional items.

<sup>3</sup> Underlying EBIT: profit before finance income, finance costs including the related foreign exchange gains and losses, income tax expense, net losses on derivatives not qualifying for hedge accounting, share of income or loss on joint ventures and exceptional items.

<sup>4</sup> For the year ended 31 December 2007, the EPS calculation assumed that the ordinary shares in issue pursuant to share exchange agreements in relation to the acquisition of the Group were in issue throughout the period, and is calculated after taking into account the share split which occurred on 8 November 2007.

<sup>5</sup> Underlying EBITDA margin: Underlying EBITDA as a percentage of revenue.

<sup>6</sup> Gross available funds: cash and cash equivalents plus term deposits and financial assets.

<sup>7</sup> Net cash: Cash and cash equivalents less outstanding debt (non-current and current).

<sup>8</sup> Exceptional items for the year ended 31 December 2007 represented costs expensed in relation to the Initial Public Offering and consisted of staff IPO bonuses, professional and other services.

<sup>9</sup> Incremental underlying EBITDA contribution from Serov and the new aluminium smelter amounted to US\$195 million and US\$52 million, respectively.

For further information, please contact:

ENRC: Investor Relations	Mounissa Chodieva	+44 (0) 20 7389 1879
	James S Johnson	+44 (0) 20 7389 1862
	Marianna Adams	+44 (0) 20 7389 1886
ENRC: Press Relations	Julia Kalcheva	+44 (0) 20 7389 1861
M: Communications	Hugh Morrison	+44 (0) 20 7153 1534
	Edward Orlebar	+44 (0) 20 7153 1523
	Elly Williamson	+44 (0) 20 7153 1539

The information set out in the Preliminary Results Announcement relates to the year ended 31 December 2008 and, unless otherwise stated, is compared to the corresponding period of 2007, the year ended 31 December 2007. All references to 't' in the Preliminary Results Announcement are to metric tonnes, unless otherwise stated. Unless stated otherwise, statements relating to market data contained in this announcement are based on external sources, for example research institutes and industry bodies, including Heinz H Pariser, CRU, London Metal Exchange ('LME'), International Aluminium Institute, KOREM and others, and are derived from actual and/or estimated data relating to 2008 prepared in H2 2008 or Q1 2009.

Eurasian Natural Resources Corporation PLC will announce its 2008 Preliminary Results on Wednesday, 25 March, 2009. There will be a presentation to investors and analysts, commencing at 09.00 GMT at, City Presentation Centre, 4 Chiswell Street, Finsbury Square, London EC1Y 4UP. There will be a simultaneous webcast and audiocast on the ENRC website ([www.enrc.com](http://www.enrc.com)).

#### **Forward-looking statement**

*This announcement includes statements that are, or may be deemed to be, 'forward-looking statements'. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans', 'projects', 'anticipates', 'expects', 'intends', 'may', 'will', or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include matters that are not historical facts or are statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industries in which the Group operates. Forward-looking statements are based on current plans, estimates and projections, and therefore too much reliance should not be placed upon them. Such statements are subject to risks and uncertainties, most of which are difficult to predict and generally beyond the Group's control. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. The Group cautions you that forward-looking statements are not guarantees of future performance and that if risks and uncertainties materialise, or if the assumptions underlying any of these statements prove incorrect, the Group's actual results of operations, financial condition and liquidity and the development of the industry in which the Group operates may materially differ from those made in, or suggested by, the forward-looking statements contained in this announcement. In addition, even if the Group's results of operations, financial condition and liquidity and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in future periods. A number of factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in regulation, currency fluctuations, changes in business strategy, political and economic uncertainty. Subject to the requirements of the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules or any applicable law or regulation, the Group expressly disclaims any obligation or undertaking publicly to review or confirm analysts expectations or estimates or to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any changes in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

## CONTENTS

	<u>Page</u>
CHAIRMAN'S STATEMENT	5
CHIEF EXECUTIVE OFFICER'S STATEMENT	7
RESULTS OF OPERATIONS (UNAUDITED)	11
OPERATING REVIEW	13
FINANCIAL REVIEW	23
CONSOLIDATED INCOME STATEMENT (UNAUDITED)	41
CONSOLIDATED BALANCE SHEET (UNAUDITED)	42
CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)	43
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)	44
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	45
SHAREHOLDER INFORMATION	61

## **CHAIRMAN'S STATEMENT**

2008 was an important year for ENRC, being the Group's first full year as a listed company. Our inclusion in the FTSE 100 Index in March 2008 followed from the success of our listing on the London Stock Exchange and was a reflection of the efforts of our management and employees building up to this outcome. ENRC delivered exceptional results in 2008 with an underlying EBITDA of US\$4.2 billion (2007: US\$1.9 billion) and profit after tax of US\$2.7 billion (US\$0.8 billion). I would like to thank our employees for all their hard work and dedication that made this performance possible.

However, despite the record result, 2008 was a year of mixed fortunes, with demand and prices very favourable for most of the year followed by a sudden downturn in the autumn. The Group's management took rapid and decisive action to address the change in market conditions. The Board feels that it will be some while before the market returns to a better balance of demand and supply but our efforts will concentrate on retaining our position as a low cost producer, taking full advantage of our integrated mining, processing, energy production and logistics operations which are well positioned to serve, in particular, the nearby growth markets of China and Russia.

The Board was largely assembled in the run-up to the Initial Public Offering and one of the key challenges for a new Board in its first year of operation is for the Directors' to quickly form a cohesive working unit. The Board has made great progress during the year and at the end of 2008 we engaged external consultants to undertake a full evaluation of the Directors and the Board's overall performance. The findings were positive and have provided us with a firm basis from which to continue to strengthen both our governance processes and the Board as a whole has rapidly coalesced since then.

During the current economic uncertainty it is important that the Board provides robust leadership. In 2008 the wide range of experience of our Directors has provided a strong platform from which to guide and support the Group's senior management team as it addresses the challenges of managing a public listed company during a period of major economic turmoil.

## **STRATEGY**

A key responsibility of the Board is to define the Group's strategy. The Board, in response to the current opportunities available to the Group, has broadened its view on potential value enhancing acquisition prospects. This is made possible by our relatively strong balance sheet and earnings potential. The five strategic goals of the Group are:

- To maintain and improve on our low-cost operations;
- To continue expansion and development of the existing reserves and capacity;
- To add value and customer diversity by expanding our product portfolio;
- To expand our asset portfolio and footprint in the natural resources sector, both within the region and worldwide; and
- To commit to high standards of corporate responsibility, with particular reference to health and safety.

The broadening of our acquisitions strategy results from the attractive valuations for natural resources assets offered by the current economic environment. The Board will carefully assess all opportunities to ensure that they offer value accretion to all shareholders and fully utilise and broaden the Group's capabilities.

The strategy is a balanced and flexible combination of enhancing existing assets, organic expansion and acquisitions. The strategy aims to bridge the Group's current position as a leading, diversified natural resource group largely based in Kazakhstan, with its aspiration to become a more international mining group. Within the strategy is an optionality that enables the Group to respond to conditions and opportunities. Growth in shareholder value is achieved over time by achieving a higher sustained operational growth rate by the businesses which should then be reflected in the share price and dividend, as benchmarked against our peer mining companies. Management and shareholder interests are aligned through appropriate incentives linked to the delivery of value for shareholders.

Our aspirations to grow internationally have been reflected by our acquisitions of Serov in Russia and of a 50% interest in Tuoli in China, both ferrochrome operations, and a 50% interest in BML, which is

developing an iron ore deposit in Brazil. Since the year end, our desire to grow in Kazakhstan has been demonstrated by our acquisition of a 25% interest in Shubarkol, a major semi-coke and thermal coal producer and an important supplier to our operations, with an option to purchase the remaining 75%.

The proceeds of our Initial Public Offering and our strong cash flow in 2008 enabled us to plan major capital expenditure and to make acquisitions. We still enjoy a very strong balance sheet, but our plans will be tempered by market conditions which, while impacting our cash flow on the one hand, should also provide opportunities to make well priced acquisitions on the other. We will also press hard to achieve cost reductions in our business to keep our competitive edge and to offset the relatively high levels of inflation experienced in Kazakhstan.

## **CORPORATE GOVERNANCE**

High standards of corporate governance continue to be a key area of focus for the Board. We continue to monitor the Group's performance against established standards so as to ensure that the proper level of oversight is provided in order to give the best possible assurances to shareholders and other stakeholders. We have very good working relationships with our Founder Shareholders and with the Government of the Republic of Kazakhstan, both of which are a source of strength for the Group.

In July 2008, the Government of the Republic of Kazakhstan replicated the minority ownership model it has in ENRC by acquiring a 15% stake in Kazakhmys in a share swap exchange for 7.7% of ENRC. Kazakhmys subsequently acquired further shares in the market and is now our largest shareholder with a 26% holding. However, as a competitor for resources in Kazakhstan, we do not believe that it is in the interest of all shareholders that Kazakhmys should have a seat on the Board of ENRC. Since we run our businesses completely separately Kazakhmys has no significant influence over ENRC's strategic or operating decision making processes.

## **SUCCESSION**

The Board is pleased to announce that Dr Johannes Sittard, Chief Executive Officer of the Group, has agreed to extend his contract of employment and will remain with the Group up to 30 September 2010. The Board has initiated the process of finding the successor to Dr Sittard and is seeking to recruit his replacement by the end of 2009 in order to facilitate an orderly handover to the new Chief Executive Officer.

The Board also announces that Mr Miguel Perry, Chief Financial Officer of the Group, has given notice of his intention to leave the Group. Miguel Perry will step down as Chief Financial Officer and from the Board and will leave the Group with effect from 30 June 2009. Following the Group's successful Initial Public Offering, in December 2007, and its first full year as a public limited company, Miguel Perry is leaving in order to be able to further develop his career, building on his experience of preparing a company for a public offering and the success he has achieved. The Board would like to thank Miguel Perry for his valuable contribution to the company over the last two years. It is the Board's intention to appoint as his replacement a suitable external candidate for the role of Chief Financial Officer. The process is well underway and a further announcement is expected to be made in the next few weeks.

## **OUTLOOK**

Despite the current uncertainties, we believe that the Group is uniquely well-placed to benefit once stability returns to the global economy. Our focus for the coming year is to ensure that our strategy continues to deliver value to all our shareholders.

**Sir David Cooksey**  
Chairman

## CHIEF EXECUTIVE OFFICER'S STATEMENT

During the first nine months of 2008 the Group's financial and operational results were outstanding, supported by strong demand and high commodity prices for our major products as well as the management's focus on the control of cost. The results reflect the value of the Group's high quality assets, our integrated energy and logistics capabilities and strategic location.

Whilst we had anticipated a slowdown, the experience of Q4 2008 was far swifter and much greater than we or the industry had anticipated, as the travails of the financial sector were transmitted to businesses and consumers around the world. As the downturn took effect we kept our business operations under review. We responded quickly to match supply with the reduced demand from our stainless steel and steel customers, to limit inventory build up and to maintain the advantages of our low cost position. We believe that this best secures our financial position and sustains the advantage we derive from being a low cost producer. The Group's record results in 2008 are, nonetheless, tempered by the more challenging environment continuing into 2009.

### MANAGEMENT RESPONSE TO THE DOWNTURN

The steps we took to address the downturn in Q4 2008 were:

- We announced immediate production cutbacks in the ongoing operations of our Ferroalloys and Iron Ore Divisions of, respectively, approximately 35% and 50% (referenced to the 2007 sales volumes);
- We reduced staff costs, with a 10% pay cut for senior management, the suspension of sub-contractors, reduced working hours, job shares, unpaid leave and salary and hiring freezes. We managed to implement these measures without having to significantly reduce the workforce, which will stand us in good stead to rebuild output when the environment improves;
- We secured a reduction in raw material input costs as a result of the economic downturn; and
- We reviewed our capital expenditure programme with priority being given to replacement and productivity enhancing projects, limiting the 'in-progress' projects to US\$2.4 billion. Expansion projects have been delayed and will be reviewed as to their timing with the flexibility to reinstate them when economic conditions allow. We are also reviewing opportunities to reduce delivery times, reduce costs and cut expenditure with equipment suppliers.

Our businesses remain low cost, occupying the lower third or, in the case of ferrochrome, at the bottom of the cost curve. This remains a key advantage that we will focus on maintaining and, where possible, reinforcing, through the present downturn. Crucial to our success is that our businesses remain underpinned by the security of our logistics and low cost energy supply.

### 2008 PERFORMANCE

In the full year 2008, Group revenue increased 66.2%, to US\$6,823 million (2007: US\$4,106 million). The inclusion of Serov, from Q2 2008, Tuoli, from Q4 2008, and new aluminium sales, together added revenues of US\$782 million. Excluding these new businesses, revenue (refer to note 14) grew 47.2%, with the increase driven largely by higher average sales prices notably for ferrochrome and iron ore, partially offset by lower year-on-year volumes, in the Ferroalloys and Iron Ore Divisions. Total costs (excluding exceptional items) rose 18.8%, to US\$2,973 million (2007: US\$2,503 million). Excluding the new businesses, total costs increased 5.6%. Cost increases, particularly in the core operating divisions, were driven by labour and materials (reductants and fuel). Cost pressures abated significantly in Q4 2008, but in addition we took a number of actions to limit labour costs and to maximise our operational flexibility. Underlying EBITDA increased 116.9%, to US\$4,161 million (2007: US\$1,918 million) whilst profit after tax increased 229.7%, to US\$2,684 million (2007: US\$814 million). Earnings per share (before exceptional items) rose 111.3%, to 205 US cents (2007: 97 US cents). Our first full year dividend (paid and proposed) amounts to 31 US cents per share; a payout ratio (dividend per share as a proportion of earnings per share) of 15%.

The Group's performance was underpinned by a steady increase in overall production volumes and higher sales for the first nine months of 2008. There was a significant downturn in Q4 2008 when we announced production cuts in the Ferroalloys and Iron Ore Divisions, but for the full year 2008 ferrochrome production (excluding Serov and Tuoli) was down only 6.8% whilst primary iron ore concentrate fell 7.8%. Production continued to grow in the Alumina and Aluminium Division with alumina production at its new target capacity of 1.6 million tonnes per annum and with 106 thousand tonnes from the new aluminium smelter.

The Ferroalloys Division, contributing some 67.0% (2007: 59.4%) of underlying EBITDA, benefited from strong pricing, as well as the first-time contribution of Serov, with overall revenue almost doubling and significantly outpacing growth. The Iron Ore Division, contributing 22.1% (2007: 24.5%) of underlying EBITDA, was driven by strong pricing and good control of costs. The Alumina and Aluminium Division, contributing 7.1% (2007: 11.2%) of underlying EBITDA, saw total costs rise ahead of revenues due to a weak aluminium price and the build up of the new aluminium smelter. The Energy Division's underlying EBITDA contributed 4.3% (2007: 5.6%), benefiting from stronger third-party coal sales and better power and coal pricing partially offset by an increased proportion of internal power consumption by the new smelter. The Logistics Division, contributing 1.2% (2007: 2.3%) of underlying EBITDA, was impacted by a decline in transportation volumes and reduced repairs business.

We maintained a strong balance sheet with gross available funds of US\$2,768 million (31 December 2007: US\$2,921 million) and outstanding debt of US\$727 million (2007: US\$1,424 million). Operating cash flow was very strong, increasing 156.3%, to US\$2,766 million (2007: US\$1,079 million). We see our funding position as a key competitive advantage in the present uncertain times and will continue to manage this position prudently.

## **HEALTH & SAFETY**

Health and safety is a key focus for the Group and in 2008 we intensified our efforts toward improvement. The Group achieved a reduction in fatalities to 9 in 2008, from 15 in the prior year. Any deaths are regrettable to us and we express our condolences to the families involved. The number of injuries rose to 75 (2007: 63; 2008 exc Serov: 71). The Lost Time Injury Frequency Rate (LTIFR) rose to 0.68 (2007: 0.58; 2008 exc Serov: 0.67) per one million hours worked, reflecting improved reporting but also increased injury severity and greater lost worktime. We were pleased by the initial response to our review of workplaces where protection is required, stricter safety requirements being enforced on staff and the retraining of safety managers. In 2008 safety reporting and procedures were reviewed by international consultants, DuPont, and a new safety management system is now being implemented. The Group has adopted an aspiration of 'zero injuries' on which to focus its drive for an improved approach to health and safety.

## **CAPITAL EXPENDITURE**

Capital expenditure in 2008 amounted to US\$1.3 billion (2007: US\$0.9 billion), significantly below our original expectations of US\$1.7 billion for the year. In H1 2008 capital expenditure was broadly spread across our Divisions as we invested to build up our growth profile; the highlights of 2008 were the aluminium smelter achieving its Phase 1 run-rate capacity well ahead of schedule and the refurbishment of a power generator.

To continue to support the Group's strategic plan, priority has been given to replacement and efficiency projects, amounting to US\$2.4 billion in total. These projects are important to sustaining the Group's relative cost position advantage. The projects that have been delayed, amounting to some US\$4.3 billion, continue to be a key part of the Group's strategy for our Kazakhstan businesses, however, their timing is dependent on future demand.

The current approved 'in progress' capital expenditure programme includes:

- Ferroalloys Division - the construction of 3 new Direct Current (DC) furnaces at Aktobe with a capacity of 440 thousand tonnes per annum. These will be a mixture of replacement and new production with a net increase in production of approximately 170 thousand tonnes. The introduction of new furnaces will be staggered to reflect market demand. The DC furnaces should enhance productivity by their scale, enabling a reduced exposure to coke and allow the greater use of chrome ore fines;
- Alumina and Aluminium Division - the additional 125 thousand tonnes Phase 2 capacity of the aluminium smelter, due to commence production in 2010;
- Energy Division - the construction of an additional 325MW turbine to facilitate growth in other Divisions, principally the new aluminium smelter, while maintaining a net long position in electricity and providing strategic growth optionality; and
- Logistics Division - the 'China Gateway' Project. The project, for which we won a tender from the Government of the Republic of Kazakhstan, is of strategic significance to both the country and the Group. The increased capacity will enable us to better serve the market in North-West China for which we anticipate longer term growth.

For 2009 project capital expenditure is expected to amount to approximately US\$0.6 billion, with a further US\$0.4 billion for capital repairs and other projects.

## **ACQUISITIONS**

We completed the acquisition of a controlling interest in the Serov group and certain related entities ('Serov') in early April 2008. Serov is a ferroalloy producer in Russia. The total acquisition consideration amounted to US\$210 million. The transaction built up our position in low- and medium-carbon ferrochrome, and we acquired additional high-carbon capacity. In mid October 2008 the Group announced the completion of the acquisition of a 50% stake in Xinjiang Tuoli Taihang Ferro-Alloy Co. ('Tuoli'), a Chinese ferroalloys producer, for approximately US\$15 million. The acquisition of a 50% interest in Bahia Minerals BV ('BML') for US\$306 million was announced in early May 2008. BML is focused on the development of an iron ore deposit in the Bahia State of Brazil. The bankable feasibility study for the BML iron ore deposit project is expected to be completed in Q3 2009.

In February 2009, we announced the acquisition of a 25% interest in Shubarkol Komir JSC ('Shubarkol'), from a related party, a major semi-coke and thermal coal producer based in Kazakhstan, for a cash consideration of US\$200 million less 25% of net debt. Shubarkol is one of Kazakhstan's largest semi-coke and thermal coal producers, producing some 6.1 million tonnes of coal in 2007 and with 1,419 million tonnes of measured and indicated coal resources within its coal lease. ENRC has entered into an off-take agreement with Shubarkol, secured a seat on Shubarkol's Board and has a right of first refusal, combined with a call option, over all or part of the remaining shares in Shubarkol. We believe that the acquisition of this stake strengthens the integrated business model through securing a reliable and cost effective supply of semi-coke and relatively high quality thermal coal, enhancing the Group's position as a low cost producer.

Acquisitions are an important element of our strategy and are intended to build further on the low cost base of the business. Leveraging our knowledge of minerals extraction as well as our integrated energy and logistics capacity, the Group will look to develop its presence in other natural resources in the Eurasian region and elsewhere in the world.

## **TAXATION**

In December 2008 the Republic of Kazakhstan introduced a new Tax Code which took effect from 1 January 2009, providing us with greater clarity and predictability. Broadly the new Tax Code is designed to encourage greater investment in value-added processing by miners in Kazakhstan. The new Tax Code has three key changes: a phased reduction in the rate of Corporate Income Tax ('CIT') from 30% in 2008 to 20% in 2009, 17.5% in 2010 and 15% from 2011; the introduction of new Minerals Extraction Taxes ('MET') with a specific rate for each type of mineral, broadly phased to offset the reduction in CIT; and revisions to the basis of calculating Excess Profits Tax ('EPT'). The impact of the new Tax Code, going forward, is as we expected; if all of the changes were to be incorporated into the 2008 tax charge, on a *pro forma* basis, the impact would be an additional 1 to 2 percentage points on the underlying effective tax rate of 33.5%. ENRC's continued commitment to invest in value-added processing in Kazakhstan should enable us to optimise our future effective tax rate. In the short term, in the light of the current environment, we are discussing with the Government the possibility of partial or whole exemptions from MET.

## **INDUSTRY OVERVIEW**

We expect the outlook for mining and metals across our core commodities to remain positive over the longer term. However, in the short term, the industry faces considerable uncertainty and business sentiment remains appropriately cautious. This is already widely evident in the postponement or cancellation of projects by our industry peers, cutbacks in capacity in response to weak demand conditions and with many spot prices at or below the cost levels of the marginal producers. In most commodities, production capacity remains well in excess of demand and inventories are high. We expect that in 2009 discussions for negotiated price commodities will be more protracted. Near term conditions should be gradually eased by the range of extensive fiscal stimulus packages implemented by governments worldwide. Nonetheless, we believe that the world economy is unlikely to see a sustained improvement in industrial production until credit conditions ease, the cost of capital declines and after substantial private and public sector deleveraging.

Stainless steel production in 2008 amounted to about 26.6 million tonnes (2007: 28.5 million tonnes) and may ease further in 2009. Downside risk may be limited, as industry ferrochrome capacity has been much

reduced and there is limited inventory, which should help lower cost producers such as ENRC. Iron ore production will be similarly depressed and our advantage is our access to the North-West Chinese markets, however, there are few signs of recovery evident in the Russian steel industry on which we have traditionally focused. Alumina and aluminium will remain constrained by high inventory levels, however, our location, low cost position and limited scale should help our position within the Russian market.

We hold a positive view on the long-term growth prospects for the Chinese and Russian economies, which supports ENRC's strategic location; China in particular will be key to any turnaround in the demand for industrial metals. The potential growth in demand in Russia and China, for ferroalloys, iron ore, alumina and aluminium, and in other metals is significant, based on their populations, urbanisation and infrastructure requirements. The prospects for ENRC in these markets are enhanced by structural capacity shortages, particularly in China, that are expected to emerge with an economic recovery. Kazakhstan, and ENRC as a leading company in Kazakhstan, are strategically well positioned to seize the opportunities in these key markets over the longer term.

## **OUTLOOK FOR 2009**

One of management's key areas of focus has been working capital. We have successfully managed to control inventory levels and have avoided any significant issues with the recovery of receivables.

As indicated above, we expect that market conditions will remain determined largely by demand factors. Whilst sales volumes so far in 2009 have been better than expected, it is not yet clear that this is sustainable. Some contractual sales volumes have been reduced to date, and this trend may continue in the light of overall market conditions. We do not expect that we will have certainty on any sustained general recovery before 2010 at the earliest.

The Q4 2008 production cutback in Ferroalloys will be maintained at 35% with Iron Ore at 40%, at least through H1 2009. We are continually reassessing the production plans for the businesses in the light of the weak global economic situation and end customer demand but, at this time, are comfortable with the scale of the cutbacks we have announced, however, their duration is uncertain. We also anticipate that pressure on prices will remain. In the present environment underlying cost growth pressures are abating somewhat, which should help the Group's efforts to control costs. In 2009 the comparative stability of the Energy Division is likely to be evident with a relatively more secure demand for coal and power.

The 25% devaluation of the Kazakhstani tenge has provided some benefit as a large part of our costs are incurred in tenge. The devaluation will help ensure that we maintain our competitive cost position. Any benefit from the devaluation will in part be offset by the foreign exchange forward hedge we have in place, as well as increased cost inflation and the growing incidence of pegging some supply prices to the US dollar.

We have made the decision to reaffirm our dividend policy of a payout ratio of 15%-20% of earnings, until we have better visibility of the business cycle.

We believe that ENRC has all of the essential ingredients for managing through the current challenging environment and for future success, based on our proximity to key markets, our low costs and growth opportunities. Given the current operating environment, we are focused on the tight management of cash and of the balance sheet, rigorous control of costs in our businesses, the pursuit of a range of asset productivity enhancements and replacement, and selective acquisition opportunities. All of these are directed towards underpinning the performance of the business, providing a solid platform for growth and delivering value for all our shareholders.

Our success is ultimately a credit to the operational management team in the businesses and to all our employees, to whom we offer our sincere thanks for their continuing efforts and for their fortitude and accommodation as we manage through the current challenging times. We would not have been able to manage through the downturn as well without the co-operation of our workforce with whom we have a good working relationship.

**Dr Johannes Sittard**  
Chief Executive Officer

## RESULTS OF OPERATIONS (Unaudited)

The following table sets out information about the results of the Group's operations for the years ended 31 December 2008 and 31 December 2007:

In millions US\$	2008	2007	2008 +/-	vs. 2007 %
Revenue	<b>6,823</b>	4,106	2,717	66.2%
Cost of sales	<b>(2,088)</b>	(1,701)	(387)	22.8%
<b>Gross profit</b>	<b>4,735</b>	2,405	2,330	96.9%
Gross margin, %	<b>69.4%</b>	58.6%		
Distribution costs	<b>(431)</b>	(373)	(58)	15.5%
Selling, general and administrative expenses	<b>(422)</b>	(606)	184	(30.4)%
Net other operating expenses	<b>(32)</b>	(5)	(27)	540.0%
<b>Operating profit</b>	<b>3,850</b>	1,421	2,429	170.9%
Operating profit margin, %	<b>56.4%</b>	34.6%		
Finance income	<b>132</b>	58	74	127.6%
Finance costs	<b>(143)</b>	(158)	15	(9.5)%
Share of loss of joint ventures	<b>(12)</b>	-	(12)	-
<b>Profit before income tax</b>	<b>3,827</b>	1,321	2,506	189.7%
Profit before income tax margin, %	<b>56.1%</b>	32.2%		
<b>Income tax expense</b>	<b>(1,143)</b>	(507)	(636)	125.4%
Effective tax rate, %	<b>29.9%</b>	38.4%		
<b>Profit for the period</b>	<b>2,684</b>	814	1,870	229.7%
Profit margin, %	<b>39.3%</b>	19.8%		
<b>Depreciation, amortisation and impairment</b>				
Cost of sales	<b>(296)</b>	(271)	(25)	9.2%
Selling, general and administrative expenses	<b>(15)</b>	(32)	17	(53.1)%
<b>Total depreciation, amortisation and impairment</b>	<b>(311)</b>	(303)	(8)	2.6%
<b>Exceptional items</b>	-	(182)	182	(100.0)%
<b>Underlying EBITDA</b>	<b>4,161</b>	1,918	2,243	116.9%
<b>Underlying EBITDA margin</b>	<b>61.0%</b>	46.7%		

## RESULTS OF OPERATIONS (Unaudited) - continued

The following table sets out selected financial information of the Group by Division:

In millions US\$	Ferroalloys	Iron Ore	Alumina & Aluminium	Energy	Logistics	Corporate	Intra Group Eliminations	Group total
<b>Segment revenue</b>								
2008	4,156	1,499	867	436	229	-	(364)	6,823
2007	2,178	991	608	314	232	-	(217)	4,106
<b>Segment operating profit</b>								
2008	2,689	835	218	146	32	(70)	-	3,850
2007	1,038	359	159	71	27	(233)	-	1,421
<b>Segment operating profit margin, %</b>								
2008	64.7%	55.7%	25.1%	33.5%	14.0%	-	-	56.4%
2007	47.7%	36.2%	26.2%	22.6%	11.6%	-	-	34.6%
<b>Underlying EBITDA</b>								
2008	2,789	919	295	177	50	(69)	-	4,161
2007	1,140	470	214	107	44	(57)	-	1,918
<b>Underlying EBITDA margin, %</b>								
2008	67.1%	61.3%	34.0%	40.6%	21.8%	-	-	61.0%
2007	52.3%	47.4%	35.2%	34.1%	19.0%	-	-	46.7%
<b>% of Group revenue excluding inter-segmental revenues</b>								
2008	60.8%	22.0%	12.7%	3.0%	1.6%	-	-	100.0%
2007	53.0%	24.1%	14.8%	4.4%	3.6%	-	-	100.0%
<b>% of Group underlying EBITDA</b>								
2008	67.0%	22.1%	7.1%	4.3%	1.2%	(1.7)%	-	100.0%
2007	59.4%	24.5%	11.2%	5.6%	2.3%	(3.0)%	-	100.0%

## **OPERATING REVIEW**

### **OVERVIEW**

ENRC is a leading diversified natural resources group, performing integrated mining, processing, energy, logistics and marketing operations. The operations comprise: the mining and processing of chrome, manganese and iron ore; the smelting of ferroalloys; the production of iron ore pellets; the mining and processing of bauxite for the extraction of alumina and the production of aluminium; coal extraction and electricity generation; and the transportation and sales of Group products. The Group's production assets are largely located in the Republic of Kazakhstan. The Group's entities, in the period, employed approximately 67,000 (2007: 64,000) people, including about 3,000 added in H1 2008 with the acquisition of Serov and a further 600 from Tuoli in H2 2008. In 2008, the Group accounted for approximately 5% of Kazakhstan's GDP. The Group currently sells its products around the world, including in Russia, China, Japan, Western Europe and the United States. For the year ended 31 December 2008, the Group had revenue of US\$6,823 million (2007: US\$4,106 million) and profit attributable to equity shareholders of the Group of US\$2,642 million (2007: US\$798 million).

In 2008 production in the Group's ongoing operations saw steady growth in the first nine months against the comparable period in 2007. For the full year, production was reduced in the Ferroalloys and Iron Ore Divisions following the production cutbacks in Q4 2008. Ore grades remained broadly consistent. Total Ferroalloys Division production benefitted from the inclusion of Serov from Q2 2008. Production in the Alumina and Aluminium Division increased, with the additional benefit of the new aluminium smelter, and in the Energy Division. Logistics Division total shipments fell for the year following the downturn in Q4.

### **DESCRIPTION OF ENRC'S BUSINESS**

The Group has five operating Divisions:

#### **Ferroalloys Division**

The Ferroalloys Division primarily produces and sells ferrochrome, as well as other ferroalloys for use as alloying products in the production of steel, whilst manganese and chrome ore are sold to third party producers of ferroalloys as well as the chemical industry. The Ferroalloys Division's chrome ore reserves are believed to be the largest in the Commonwealth of Independent States ('CIS') (183 million tonnes as at 31 December 2008) and are believed to have a higher grade of chrome content (41.4%) than those of other large scale producers. In 2008, the Ferroalloys Division produced 3,629 thousand tonnes of saleable chrome ore (2007: 3,687 thousand tonnes), 1,024 thousand tonnes of saleable manganese ore concentrate (2007: 935 thousand tonnes) and 1,551 thousand tonnes of ferroalloys (2007: 1,469 thousand tonnes), including 1,054 thousand tonnes of its primary product, high-carbon ferrochrome (2007: 1,070 thousand tonnes). For the year ended 31 December 2008, the Ferroalloys Division had revenue of US\$4,151 million (2007: US\$2,178 million), which represented 60.8% (2007: 53.0%) of the Group's consolidated revenue.

As reported in the Chief Executive's Statement, in early April 2008 the Group announced the completion of the acquisition of a controlling interest in Serov, a ferroalloy producer in Russia. The acquisition demonstrated a number of important aspects of our strategy. This transaction was ENRC's first acquisition outside of Kazakhstan and, longer-term, reinforced our position in low-carbon and medium-carbon ferrochrome, with potential incremental annual sales, including high-carbon ferrochrome, of approximately 200 thousand tonnes of ferroalloys. In addition, the transaction will allow the Group to benefit from further scale within its ferroalloys business and provides an important asset base in Russia, supporting the Group's strategy of regional expansion.

In mid October 2008 the Group announced the completion of the acquisition of a 50% Tuoli. Tuoli is one of China's largest ferrochrome plants with a potential annual capacity of 120 thousand tonnes of high-carbon ferrochrome. The acquisition gave the Group the advantage of a direct presence in the Chinese market.

The Ferroalloys Division is vertically integrated, having its own chrome ore and manganese ore mines feeding its ferroalloy production in Kazakhstan, Russia and China. As well as having its own ore, the Division also benefits from competitively priced electricity supplied by the Energy Division, as well as having a gas-fired power station at its Aktobe plant.

## **Sales and Pricing**

Prices for ferrochrome are typically negotiated on a quarterly basis in the European and Japanese markets (the latter with a one quarter delay in pricing) with volumes covered by long term supply contracts with terms ranging from one to five years. In the US prices are adjusted according to published indices for ferrochrome.

Demand for high-carbon ferrochrome was extremely strong in H1 2008 as stainless steel production returned to record levels. Demand was further enhanced by the announcement by ESKOM, the South African electricity generator, of generation constraints in South Africa, leading to increased security stocking of ferrochrome. The resulting market squeeze fuelled the largest ever single quarterly move of the benchmark price, US\$0.72 per pound of chrome in Q2 2008. Strong, although waning, demand continued into early Q3 2008, despite the effects of a slowing US economy, with the benchmark price rising a further 13 US cents. For Q4 2008 the price fell back 20 US cents to US\$1.85 per pound of chrome and demand for ferrochrome dropped by around 1 million tonnes, or 50%. Although the industry initiated production cutbacks these were not enough to prevent stock increases and it is estimated that around 0.5 million tonnes of stock was added during Q4 2008. 2008 stainless steel production was estimated at 26.6 million tonnes, down 7% on 2007. Stainless steel has enjoyed annualised growth of 5% per annum over the last 10 years. Production of stainless steel, hence demand for ferrochrome, is likely to remain limited by continued destocking at least in the short term. Longer term growth in production of stainless steel will likely recover in line with the recovery in the global economy.

Prices for low- and medium-carbon ferrochrome performed well through much of 2008 as a result of increased demand, particularly from the alloy and engineering steel sectors, with prices more than doubling on the back of a tightening supply. Chrome ore also traded at historic levels, reflecting the industry's high level of capacity utilisation and the need for high quality ore. Prices softened towards the end of 2008 in response to the economic downturn and its effect on alloy and stainless steel production.

Manganese alloys also saw record demand as a result of high production levels of carbon steel. This fuelled prices as material supply/demand balance tightened leading to greater demand for ore as the alloy industry tried to optimise its capacity utilisation and take advantage of market conditions. As with ferrochrome the demand for manganese suffered in Q4 2008.

In 2008, the Ferroalloys Division's top five customers accounted for 26.8% (2007: 30.3%) of the Division's sales revenue to third parties and included Taiyuan Iron and Steel (Group) Co. Ltd, Pohang Iron and Steel Company, JFE Steel Corporation, ChEMK and Nippon Steel.

The following table sets out the Ferroalloys Division's volume of third party sales by product for the years ended 31 December 2008 and 31 December 2007;

<b>Sales volumes</b>	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Ferroalloys:			
High-carbon ferrochrome	'000 t	<b>859</b>	1,033 (16.8)%
Medium-carbon ferrochrome	'000 t	<b>55</b>	35 57.1%
Low-carbon ferrochrome	'000 t	<b>69</b>	35 97.1%
Ferrosilicochrome	'000 t	<b>59</b>	59 0.0%
Ferrosilicomanganese	'000 t	<b>141</b>	173 (18.5)%
Ferrosilicon	'000 t	<b>48</b>	33 45.5%
<b>Total ferroalloys</b>	'000 t	<b>1,231</b>	1,368 (10.0)%
Chrome ore	'000 t	<b>702</b>	1,177 (40.4)%
Manganese ore	'000 t	<b>753</b>	615 22.4%
Ferromanganese ore	'000 t	<b>529</b>	265 99.6%

Of the Ferroalloys Division's third party sales in 2008: 28.1% (2007: 23.8%) were made to Western Europe; 19.9% (2007: 18.4%) in Japan; 20.4% (2007: 19.6%) in Russia; 11.2% (2007: 17.9%) in China; 8.1% (2007: 10.8%) in North America; 7.0% (2007: 4.2%) in South Korea and the Far East; and 5.3% (2007: 5.3%) in the rest of the world.

### Key Initiatives

The key objectives for the Ferroalloys Division are: to expand operations with substantial margins and returns on capital based on the low-cost, large scale and high-grade ore resources available to the Group; reduce production costs by replacing outdated equipment; further strengthen the Group's leading market position in ferroalloys worldwide; and to improve the environmental and safety performance of the Division.

Following revisions to the Group's capital expenditure programme the main projects and schedule for the Division are:

- Construction of a second pelletising plant at Donskoy GOK, of 700 thousand tonnes per annum, is on schedule and its completion is expected in mid 2009. The pelletising plant will also produce saleable products from the output of an enrichment plant. The total estimated cost of the project is US\$110 million.
- Construction of a second enrichment plant at Donskoy GOK, for completion in mid 2009, will enable a further expansion of pellet production, and allow greater control over mining volumes and operational costs while increasing the utilisation of the mined ore.
- Building new DC furnaces at the Aktobe processing plant and a mine expansion at a cost of approximately US\$590 million and with completion planned for 2012. This project is expected to enhance productivity and generate substantial cost savings, particularly for key input materials such as reductants, including coke. Furthermore, the installation of modern smelting furnaces is expected to result in significant environmental and safety improvements

## Iron Ore Division

The Iron Ore Division operates the largest iron ore mining and processing enterprise in the Republic of Kazakhstan and produces and sells iron ore concentrate and pellets primarily to steel producers. On the basis of 2008 data it is believed to be one of the world's significant exporters of iron ore and to be in the lowest third of the industry cost curve for global iron ore pellet production. The Iron Ore Division's operations include iron ore mines, crushing, beneficiation and pelletising plants and a thermal power station.

In 2008, the Iron Ore Division mined 37.8 million tonnes of iron ore (2007: 40.2 million tonnes). This was processed into 15.5 million tonnes of iron ore concentrate (2007: 16.8 million tonnes), of which 7.5 million tonnes was sold (2007: 7.4 million tonnes) and the balance was used to produce 7.0 million tonnes of iron ore pellets (2007: 8.6 million tonnes). For the year ended 31 December 2008, the Iron Ore Division had revenue of US\$1,498 million (2007: US\$991 million), which represented 22.0% (2007: 24.1%) of the Group's consolidated revenue.

### **Sales and Pricing**

In April 2007, the Group entered into a long-term contract with MMK, the Division's largest single customer accounting for 64.1% (2007: 67.4%) of the Iron Ore Division's sale revenue. The contract extends until 2017 and requires MMK to purchase specified quantities at prices determined by reference to the published world price benchmarks for iron ore concentrate and pellets. Prices are revised annually on 1 April by reference to the world price benchmarks.

In light of the current economic downturn and the impact on our customer MMK, in Q4 2008 the Group agreed to temporarily waive the minimum contractual sales volume. This waiver is effective until the end of March 2009. Contractual sales volumes will continue to be reviewed on a regular basis, taking into account developing market conditions.

The current structure of industry pricing benchmarks have historically been set between the three major iron ore producers – BHP Billiton, Rio Tinto, and Vale – and the major steel producers in China, Europe and Japan, for fines and pellets, and take effect from 1 April annually.

Tightness in the iron ore market abated in H2 2008, with spot prices falling below contract prices, and markedly so in Q4 2008. As global steelmakers started to reduce production dramatically and defer expansions, iron ore producers restrained production and delayed new projects. Market expectations anticipate reduced benchmark prices from Q2 2009.

The following table sets out the Iron Ore Division's volume of third party sales by product for the years ended 31 December 2008 and 31 December 2007.

		Year ended 31 December		2008 vs
		<b>2008</b>	2007	2007 %
Iron ore concentrate	'000 t	<b>7,464</b>	7,422	0.6%
Iron ore pellets	'000 t	<b>6,797</b>	8,534	(20.4)%

### **Key Initiatives**

The Iron Ore Division's strategic objectives are: to maintain production capacities; utilise the Group's access to low cost, large-scale deposits of iron ore and low cost energy; and to diversify sales geography, product and customer mix.

## The Alumina and Aluminium Division

The Alumina and Aluminium Division produces and sells alumina to aluminium producers and, from the end of 2007, aluminium. ENRC believes, based on 2008 data, that the Alumina and Aluminium Division is the world's ninth largest supplier of traded alumina by volume and is at the lower end of the global industry cost curve for both alumina and aluminium.

The Alumina and Aluminium Division's vertically integrated operations include two bauxite mines, a limestone mine, an alumina refinery, an aluminium smelter, and a power station. The new aluminium smelter allows the Alumina and Aluminium Division to process its alumina into aluminium. The smelter presently has an annual capacity of 125 thousand tonnes achieved in Q2 2008. The Group will complete construction of Phase 2 of the smelter which will increase the production capacity of aluminium to 250 thousand tonnes per annum in 2010.

In 2008, the Alumina and Aluminium Division mined 5.2 million tonnes of bauxite (2007: 5.0 million tonnes) and produced 1.6 million tonnes of alumina (2007: 1.5 million tonnes) and 106 thousand tonnes (2007: 12 thousand tonnes) of aluminium. For the year ended 31 December 2008, the Alumina and Aluminium Division had revenue of US\$864 million (2007: US\$607 million) representing 12.7% (2007: 14.8%) of the Group's consolidated revenue.

### **Sales and Pricing**

In 2008 the Group shipped 1.4 million tonnes of alumina to United Company RUSAL ('UC RUSAL') under a long-term supply contract expiring in 2016. The pricing under this contract is linked to the LME price of primary aluminium. As a result ENRC is not exposed to the alumina spot price. In 2008 UC RUSAL, the Division's largest single customer, accounted for 60.2% (2007: 79.5%) of the Division's sales revenue.

Sales of aluminium via Glencore International represented 30.3% of the Division's revenue in 2008. The Group shipped approximately 104 thousand tonnes of primary aluminium, almost all of which was distributed by Glencore International which acts as our agent. The LME spot price is the basis for the pricing of all aluminium contracts.

The following table sets out the Alumina and Aluminium Division's volume of third party sales by product for the years ended 31 December 2008 and 31 December 2007.

<b>Product</b>	Year ended 31 December		<i>2008 vs 2007 %</i>
	<b>2008</b>	2007	
Alumina	'000 t <b>1,393</b>	1,500	(7.1)%
Aluminium	'000 t <b>104</b>	-	-

LME aluminium prices showed unusually high volatility in 2008. Prices were driven higher in the early months of 2008 by Chinese weather-related production closures and power issues in South Africa. The average sales price was US\$2,571 per tonne (2007:US\$2,639 per tonne); the LME aluminium price reached a record high in early July 2008 at US\$3,292 per tonne with the lowest closing level in the year of US\$1,430 per tonne in mid-December. Prices fell with falling demand in key sectors, commodity fund deleveraging and increasing LME inventory. The demand outlook remains weak and prices can be expected to remain under pressure in the short-term.

### **Key Initiatives**

The Alumina and Aluminium Division's principal strategic objectives are; to increase the capacity of aluminium production in Kazakhstan; to exploit the surplus of low-cost electricity, bauxite and alumina; and to provide internally produced anodes.

Following revisions to the Group's capital expenditure programme the main projects and schedule for the Division are:

- Increasing the annual capacity of the aluminium smelter by an additional 125 thousand tonnes to start-up 2010 (Phase 2) at a cost of US\$305 million. As part of the smelter expansion we are constructing an anode plant at an additional cost of US\$200 million, which will allow the Group to be independent of third-party suppliers and, from 2011, to provide enough anodes for the increased aluminium production.

## Energy Division

The Energy Division is one of the largest electricity providers in the Republic of Kazakhstan, accounting for approximately 14.5% of the country's recorded electricity production in 2008. The Energy Division provides a cost-effective energy supply to the Group's principal operating divisions as well as producing a surplus for sales to third parties in Kazakhstan. In 2008 the Energy Division produced 11,640 GWh (2007: 12,121 GWh) of which 68.5% (2007: 58.0%) was used internally within the Group. The share of internal consumption increased as the new aluminium smelter increased its production to its full Phase 1 run rate capacity. Coal production increased 7.6% to 19.8 million tonnes (2007: 18.4 million tonnes). In addition to sales of surplus electricity, the Energy Division also sold 8.0 million tonnes of coal to third parties (2007: 6.4 million tonnes) which represented 40.4% of total coal mined (2007: 34.7%). For the year ended 31 December 2008, the Energy Division had revenue of US\$436 million (2007: US\$314 million), of which US\$203 million was derived from third party sales (2007: US\$181 million), representing 3.0% (2007: 4.4%) of the Group's consolidated revenue.

In February 2009, the Group announced the acquisition of a 25% interest in Shubarkol Komir JSC ('Shubarkol'), a major semi coke and thermal coal producer based in Kazakhstan, for a cash consideration of US\$200 million less 25% of net debt. Shubarkol is one of Kazakhstan's largest thermal coal producers, producing some 6.1 million tonnes of coal in 2007 and with 1,419 million tonnes of measured and indicated coal resources within its coal lease, of which there were 365 million tonnes of probable coal reserves. The Group has a right of first refusal and a call option to purchase the remaining 75% of Shubarkol.

### **Sales and Pricing**

The following table sets out the Energy Division's volume of third party sales by product for the years ended 31 December 2008 and 31 December 2007.

<b>Product</b>	Year ended 31 December			<i>2008 vs 2007 %</i>
		<b>2008</b>	2007	
Coal	'000 t	<b>8,044</b>	6,397	25.7%
Electrical energy	GWh	<b>2,825</b>	4,192	(32.6)%

### **Sales and Pricing - Electricity**

Supply constraints were anticipated for 2008, as the new ENRC aluminium smelter increased production to its Phase 1 run rate of 125 thousand tonnes per annum. This was attained in Q2 2008, creating the largest ever single increase in electricity demand in Kazakhstan. An electricity deficit for the country continued for the first nine months of 2008. However, any increase in electricity prices was limited as the Government of the Republic of Kazakhstan, in order to control inflation, advised producers to maintain 2007 prices from 1 January 2008. Electricity producers were permitted to adjust prices from Q2 2008. Following the recommendations of the Government, the Energy Division increased prices for companies involved in the supply and transmission of electric-power by 13.6% from 1 April 2008 whilst securing a larger increase from the industrial sector. The average sales price to third parties increased 27.2% to KZT2.65 (2.20 US cents) per kWh (2007: KZT2.12 (1.73 US cents) per kWh). The economic downturn forced domestic power producers to cut output and electricity consumption in Q4 2008, moving the domestic electricity market back into surplus. Despite a moderate decline in electricity consumption in Kazakhstan in Q4 2008, over the year the market grew approximately 4.4% to 80.0 billion kWh. Due to the economic climate, a surplus of electricity is likely to persist in Kazakhstan in 2009 creating more competition in the sale of excess electricity to third parties.

### **Sales and Pricing - Coal**

In Kazakhstan, ENRC sold 3.1 million tonnes of coal to third parties (2007: 2.5 million tonnes) at an average sales price of KZT721 (US\$5.99) per tonne (2007: KZT688 (US\$5.61) per tonne), an increase of 4.8%. In Russia, as a result of gas prices rising 27% in early 2008, the cost efficiency of coal-fired power generation improved compared to gas powered generation, eventually leading to stronger coal demand from heat and power stations. Growth of consumption in Russia resulted the in the Group selling additional coal. The Energy Division sold 5.0 million tonnes of coal to Russia (2007: 3.9 million tonnes). In 2008 Omskenenergy, the Division's largest single customer, accounted for 25.7% (2007: 25.5%) of the Division's revenue. The average annual selling price for Russian customers increased 18.8% to US\$24.6

per tonne (2007: US\$20.7). With gas prices still forecast to grow in Russia, it is expected that further increases in domestic prices will be experienced in 2009. However, coal consumption could be constrained due to warmer than expected weather in Russia and in the Republic of Kazakhstan during the 2008/09 winter and prolonged economic slowdown with production cuts and a consequent fall in electricity consumption.

### **Key Initiatives**

The Energy Division's principal objectives are: to provide low-cost power and coal for the Group's existing operations, utilising its large scale coal reserves; and a progressive expansion of production in Kazakhstan. Additional energy capacity will ensure power supply to the Group's Divisions and allow it to maintain its presence on the Kazakhstan power market where it sells electric energy into the wholesale market.

Following revision to the Group's capital expenditure programme the main projects and schedule for the Division are:

- Install overburden stripping equipment at a cost of US\$85 million, to increase efficiency, by 2010; and
- Invest approximately US\$200 million to construct a new turbine and generator by 2011. It is expected that this will increase total installed electricity generating capacity by 325MW.

## **Logistics Division**

The Logistics Division provides transportation and logistics services to the Group's operating Divisions and to third parties. The Division's operations include freight forwarding, wagon repair services and railway construction and repair services. The availability of these services within the Group mitigates many of the risks associated with the supply of raw materials and delivery of products to customers. In addition, the Division operates a railway transfer and reloading terminal on the Kazakhstan/China border, facilitating the Group's access to the Chinese market.

For the year ended 31 December 2008, the Logistics Division transported 58.5 million tonnes of goods (2007: 60.9 million tonnes), of which 80.7% (2007: 87.7%) was intra-Group. Reduced transportation volumes for the year reflected a slowdown in Q4 2008 in the key commodities; iron ore, chrome ore and ferroalloys. For the year ended 31 December 2008, the Logistics Division had revenue of US\$229 million (2007: US\$232 million), of which US\$107 million (2007: US\$149 million) derived from third party sales representing 1.6% (2007: 3.6%) of the Group's consolidated revenue. A significant factor impacting the 2008 revenue and cost of sales was that the main customer, the Kazakhstani State railway company, used its own material for some railroad repair works. In addition there were delays in the tendering process for some contracts.

### **Key Initiatives**

On 21 March 2008, ENRC Logistics won the Republic of Kazakhstan open tender for the concession for the construction and running of about 300 kilometres of a new railway line in South-East Kazakhstan (the 'China Gateway Project'), connecting Kazakhstan with China. The new railway will facilitate an increased cargo capacity, by up to 30 million tonnes per annum, and will provide ENRC's operations with a secure transportation route for products to be sold into the Chinese market. The construction period is estimated to be approximately 4 years with a required investment of approximately US\$910 million. The operational period of the concession is 24 years from the completion of construction. The design review and financial and technical report are expected to be completed in Q2 2009.

This page is intentionally left blank.

## FINANCIAL REVIEW

### Year ended 31 December 2008 compared to the year ended 31 December 2007

#### Group

The Group continued its growth in 2008, achieving record financial results. Commodity prices rose strongly throughout the first nine months of the year underpinning this growth, partially offset by production cutbacks impacting in Q4 2008 introduced in response to the economic downturn.

Revenue increased US\$2,717 million, or 66.2%, to US\$6,823 million (2007: US\$4,106 million). Higher sales prices accounted for 104.4% of this growth, whilst reduced sales led to a fall of 4.4%. The inclusion of Serov, the new aluminium smelter and Tuoli added revenues of, respectively, US\$496 million, US\$280 million and US\$6 million. Like-for-like revenue increased US\$1,937 million, or 47.2% to US\$6,040 million. The Ferroalloys Division accounted for 76.0% of the increase; and the Iron Ore Division for 26.2%.

Whilst benefiting from strong commodity prices, the Group maintained a good control of operating costs. Cost of sales rose US\$387 million, or 22.8%, to US\$2,088 million (2007: US\$1,701 million). Like-for-like Group cost of sales increased US\$121 million, or 7.1%, to US\$1,819 million (2007: US\$1,698 million). Higher materials and labour costs were the main factors driving this increase. The Alumina and Aluminium Division experienced the largest underlying cost increase, mainly due to a significant increase in raw materials prices. The inclusion of Serov, the new aluminium smelter and Tuoli increased the cost of sales by, respectively, US\$155 million, US\$103 million and US\$11 million.

Distribution costs increased US\$58 million, or 15.5%, to US\$431 million (2007: US\$373 million). There was an increase of US\$29 million in the Ferroalloys Division, a consequence of increased transportation costs, and an increase of US\$17 million in the Iron Ore Division, as proportionally more product was transported to China.

Selling, general and administrative expenses declined US\$184 million, or 30.4%, to US\$422 million (2007: US\$606 million). This decline was principally due to US\$182 million of expenses attributable to the IPO in 2007.

Group operating profit increased US\$2,429 million, or 170.9%, to US\$3,850 million (2007: US\$1,421 million). The Ferroalloys Division contributed 68.0% of this growth, or US\$1,651 million (including US\$197 million from Serov). The Iron Ore Division contributed 19.6%, or US\$476 million. Exchange rates did not have a material impact on the Group's financial results.

Group finance income increased US\$74 million, or 127.6%, to US\$132 million (2007: US\$58 million) primarily due to interest income on IPO proceeds invested in money market securities and increased bank interest income. Group finance costs decreased US\$15 million, or 9.5%, to US\$143 million (2007: US\$158 million) primarily due to the paying down of the trade finance facility offset by foreign exchange losses.

#### **Impairment**

Due to the global economic crisis and the consequent impact on commodity prices and demand, we have considered the recoverability of long-term assets. We have adopted the value-in-use approach and used our strategic planning models, which are on a life-of-mines basis, to calculate future discounted cash flow for each cash-generating unit. The impairment review concluded that no impairment provisions were required.

## Ferroalloys Division

In millions of US\$	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Revenue	<b>4,156</b>	2,178	90.8%
Third parties	<b>4,151</b>	2,178	90.6%
Intercompany	<b>5</b>	-	n/a
Cost of sales	<b>(1,017)</b>	(754)	34.9%
<b>Gross profit</b>	<b>3,139</b>	1,424	120.4%
Gross margin %	<b>75.5%</b>	65.4%	
Distribution costs	<b>(277)</b>	(248)	11.7%
General and administrative expenses	<b>(159)</b>	(141)	12.8%
Net other operating (expenses)/income	<b>(14)</b>	3	(566.7)%
<b>EBIT</b>	<b>2,689</b>	1,038	159.1%
EBIT margin %	<b>64.7%</b>	47.7%	
Depreciation, amortisation and impairment	<b>(100)</b>	(100)	0.0%
<b>Underlying EBITDA</b>	<b>2,789</b>	1,140	144.6%
Underlying EBITDA margin %	<b>67.1%</b>	52.3%	

Key Facts	Year ended 31 December		
	2008	2007	
<b>Sales Volumes</b>			
Ferroalloys	'000t	<b>1,231</b>	1,368
Chrome ore	'000t	<b>702</b>	1,177
Manganese concentrate	'000t	<b>753</b>	615
Ferro-manganese concentrate	'000t	<b>529</b>	265
<b>Prices</b>			
Ferroalloys - total	US\$/lb Cr	<b>1.85</b>	0.85
Chrome ore	US\$/tonne	<b>533</b>	250
Manganese concentrate	US\$/tonne	<b>342</b>	122
Ferro-manganese concentrate	US\$/tonne	<b>60</b>	25
<b>Unit Costs*</b>			
Ferroalloys - total	US\$/lb Cr	<b>0.49</b>	0.29
Chrome ore	US\$/tonne	<b>22</b>	20
Manganese concentrate	US\$/tonne	<b>83</b>	73
Ferro-manganese concentrate	US\$/tonne	<b>10</b>	4

\* Unit costs: Cost of sales divided by sales volumes.

## Ferroalloys Division

The Ferroalloys Division achieved outstanding results in the year, although the heightened pressures of the economic slowdown began to impact in Q4 2008. The results reflected much higher average sales prices for the year and a good control of costs.

In response to the significant weakening in demand following the economic slowdown, production was cut back in Q4 2008 by approximately 35% (referenced to the 2007 sales volumes run rate), or 85 thousand tonnes, principally high-carbon ferrochrome, with an accompanying reduction in chrome ore extraction. In addition the Group cut back production in the higher cost operations of Serov, by approximately 40% against Q3 2008, and in Tuoli, where production was suspended. Late in 2008 the Division cut back a further 15 thousand tonnes, sales being supplied from inventory, in order to minimise stock being carried forward. In Q4 2008 total ferroalloys production (excluding Serov and Tuoli) declined 34.4% relative to Q3 2008, reducing full year production of the ongoing businesses to below that of the prior year. Manganese related production, a product of opportunity for the Group although not a significant business, was reduced in response to the market environment.

Despite these cut backs in Q4 2008 production volumes achieved a solid performance compared to the prior year, largely due to the strong results achieved in the first nine months of 2008.

Chrome ore extraction declined 5.6% to 4,331 thousand tonnes, or 4,207 thousand tonnes excluding Serov (2007: 4,590 thousand tonnes). The underlying decline reflected a reduction in open pit mining, ahead of planned growth in underground mining in the years ahead. The decline in extraction was partially offset by a 4.9% growth in the processing of low-grade stockpiled ore. The internal consumption of saleable chrome ore rose to 71.5% (2007: 69.1%). A modest decline of 1.6% was evident in the production of saleable chrome ore from 3,687 thousand tonnes in the year ended 31 December 2007 to 3,629 thousand tonnes in the year ended 31 December 2008 (of which Serov added 77 thousand tonnes). Saleable manganese ore and iron manganese production achieved good growth.

Ferroalloys production achieved solid growth, with additional volume coming from the acquisition of Serov and Tuoli. Ferrochrome production increased 5.6% to 1,551 thousand tonnes (2007: 1,469 thousand tonnes), including 178 thousand tonnes from Serov in the period from Q2 2008. Serov provided additional high-carbon ferrochrome and ferrosilicon-chrome capacity, but its greatest impact on the scale of the business was additional medium- and low-carbon ferrochrome production. The acquisition of Tuoli, completed in Q4 2008, had little impact on volumes or revenues as production was suspended in response to market conditions. Tuoli added 4 thousand tonnes of high-carbon ferrochrome in Q4 2008.

The Ferroalloys Division's third party revenue increased US\$1,973 million, or 90.6%, to US\$4,151 million (2007: US\$2,178 million). Higher prices led to a US\$2,202 million growth in revenue. Average ferroalloy prices increased 2.2 times to US\$1.85 per pound of chrome (2007: US\$0.85 per pound of chrome). In addition higher chrome ore prices were realised, which increased to US\$533 per tonne (2007: US\$250). The Group reallocated production capacity in response to this opportunity. A 10.1% drop in ferroalloys sales volumes and a 40.4% decrease in external chrome ore sales, reflecting the consolidation of Serov, were partially offset by a 22.4% growth in manganese concentrate sales and a two-fold growth in iron-manganese concentrate sales; together these accounted for a US\$223 million fall in revenue. Sales from Serov were consolidated by the Group from early April 2008 and added revenue of US\$496 million.

Cost of sales increased US\$263 million, or 34.9%, to US\$1,017 million (2007: US\$754 million). Serov and Tuoli cost of sales contributed, respectively, US\$155 million and US\$11 million to this increase. The underlying increase was mainly due to higher material costs (principally coke), energy and labour costs. The average unit cost of high-carbon ferrochrome was US\$0.42 per pound of chrome (2007: US\$0.28 per pound of chrome). This increase mainly reflected the higher costs of Serov where the unit cost is about three times higher than in Kazchrome with a unit cost of chrome ore of US\$22 per tonne (2007: US\$20 per tonne). As well as increased material and labour costs there was a change in the product mix towards greater manganese content which also added to refining costs.

Distribution costs increased US\$29 million, or 11.7%, to US\$277 million (2007: US\$248 million). Serov's distribution costs contributed US\$20 million to the increase.

Selling, general and administrative expenses increased US\$18 million, or 12.8%, to US\$159 million (2007: US\$141 million). Serov's selling, general and administrative expenses contributed US\$20 million.

The Division's operating profit increased US\$1,651 million to US\$2,689 million (2007: US\$1,038 million). Serov contributed US\$195 million to the increase from April 2008. Tuoli had no material impact in Q4 2008.

This page is intentionally left blank.

## Iron Ore Division

In millions of US\$	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Revenue	1,499	991	51.3%
Third parties	1,498	991	51.2%
Intercompany	1	-	n/a
Cost of sales	(468)	(417)	12.2%
<b>Gross profit</b>	<b>1,031</b>	<b>574</b>	<b>79.6%</b>
Gross margin %	<b>68.8%</b>	<b>57.9%</b>	
Distribution costs	(113)	(96)	17.7%
General and administrative expenses	(74)	(86)	(14.0)%
Net other operating expenses	(9)	(33)	(72.7)%
<b>EBIT</b>	<b>835</b>	<b>359</b>	<b>132.6%</b>
EBIT margin %	<b>55.7%</b>	<b>36.2%</b>	
Depreciation, amortisation and impairment	(84)	(89)	(5.6)%
<b>Underlying EBITDA</b>	<b>919</b>	<b>470</b>	<b>95.5%</b>
Underlying EBITDA margin %	<b>61.3%</b>	<b>47.4%</b>	

Key Facts	Year ended 31 December		
	2008	2007	
<b>Sales Volumes</b>			
Iron ore concentrate	'000t	7,464	7,422
Iron ore pellets	'000t	6,797	8,534
<b>Prices</b>			
Iron ore	US\$/tonne	80	45
Iron ore pellets	US\$/tonne	126	73
<b>Unit Costs*</b>			
Iron ore	US\$/tonne	26	20
Iron ore pellets	US\$/tonne	36	27

\* Unit costs: Cost of sales divided by sales volumes.

## **Iron Ore Division**

Iron ore extraction volumes during the first nine months of 2008 exceeded those in the comparable period of 2007. However, in response to the significant weakening in demand as a result of the economic slowdown, production of primary concentrate was cut in Q4 2008 by approximately 50% (referenced to the 2007 sales volumes), or approximately 2 million tonnes, with an accompanying reduction in iron ore extraction. In Q4 2008 ore extraction declined 43.3% relative to Q3 2008 reducing the full year performance to below that of the prior year.

Extraction of iron ore fell 6.1% to 37,751 thousand tonnes (2007: 40,222 thousand tonnes).

From the extracted ore, primary concentrate production decreased 7.8% to 15,487 thousand tonnes (2007: 16,791 thousand tonnes), with extraction also affected by a marginally lower grade of mined ore and a reduced yield of concentrate. Primary concentrate is used for either saleable concentrate or pellet production; saleable concentrate rose 6.6% against a decline of 18.9% in saleable pellets. The reduced pellet production largely reflected the reconstruction of a pelletiser unit which was not in operation for much of 2008.

The Iron Ore Division's third party revenue increased US\$507 million, or 51.2%, to US\$1,498 million (2007: US\$991 million). Of this increase 124.0% reflected higher sales prices. Iron ore concentrate and pellets price rises contributed 23.1% to the Group's revenue increase. The average price of iron ore concentrate rose 78.5% to US\$79.6 per tonne (2007: US\$44.6 per tonne). The iron ore pellets price rose 73.6% to US\$126.2 per tonne (2007: US\$72.7 per tonne).

Cost of sales increased US\$51 million, or 12.2%, to US\$468 million (2007: US\$417 million). The increase largely reflected higher material prices, labour and energy costs. The unit cost of iron ore concentrate was US\$26 per tonne (2007: US\$20 per tonne) whilst the unit cost of iron ore pellets was US\$36 per tonne (2007: US\$27 per tonne). The increase in unit costs was mainly caused by increased material prices and higher maintenance and transportation costs.

Distribution costs increased US\$17 million, or 17.7%, to US\$113 million (2007: US\$96 million) reflecting higher labour and transportation costs and greater depreciation and amortisation.

Selling, general and administrative expenses decreased US\$12 million, or 14.0%, to US\$74 million (2007: US\$86 million); 2007 included an impairment charge of US\$12 million.

The Division's operating profit increased US\$476 million, or 132.6%, to US\$835 million (2007: US\$359 million).

## Alumina/Aluminium Division

In millions of US\$	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Revenue	<b>867</b>	608	42.6%
Third parties	<b>864</b>	607	42.3%
Intercompany	<b>3</b>	1	200.0%
Cost of sales	<b>(551)</b>	(352)	56.5%
<b>Gross profit</b>	<b>316</b>	256	23.4%
Gross margin %	<b>36.4%</b>	42.1%	
Distribution costs	<b>(42)</b>	(30)	40.0%
General and administrative expenses	<b>(60)</b>	(74)	(18.9)%
Net other operating income	<b>4</b>	7	(42.9)%
<b>EBIT</b>	<b>218</b>	159	37.1%
EBIT margin %	<b>25.1%</b>	26.2%	
Depreciation, amortisation and impairment	<b>(77)</b>	(61)	26.2%
<b>Underlying EBITDA</b>	<b>295</b>	214	37.9%
Underlying EBITDA margin %	<b>34.0%</b>	35.2%	

Key Facts	Year ended 31 December		
	2008	2007	
<b>Sales Volumes</b>			
Alumina	'000t	<b>1,393</b>	1,500
Aluminium	'000t	<b>104</b>	n/a
<b>Prices</b>			
Alumina	US\$/tonne	<b>380</b>	370
Aluminium	US\$/tonne	<b>2,691</b>	n/a
<b>Unit Costs*</b>			
Alumina	US\$/tonne	<b>244</b>	205
Aluminium	US\$/tonne	<b>1,728</b>	n/a

\* Unit costs: Cost of sales divided by sales volumes.

## **The Alumina and Aluminium Division**

The Alumina and Aluminium Division achieved 4.0% growth in bauxite extraction to 5,160 thousand tonnes (2007: 4,963 thousand tonnes). This growth resulted from a development programme to secure the supply of bauxite for the planned expansion in alumina production to 1,600 thousand tonnes per annum in 2008 (2007: 1,537 thousand tonnes), an increase of 4.1%.

Production at the new aluminium smelter commenced in December 2007. In 2008 the new smelter consumed 209 thousand tonnes, or 13.1%, of internal alumina production. The new aluminium smelter achieved its Phase 1 run-rate production target of 125 thousand tonnes per annum in Q2 2008, well ahead of its scheduled year-end date.

The Alumina and Aluminium Division's third party revenue increased US\$257 million, or 42.3%, to US\$864 million (2007: US\$607 million). This was principally due to new aluminium sales revenue of US\$280 million. The underlying US\$23 million reduction in revenue was due to a 7.1% decline in third-party alumina sales volumes, partially offset by higher prices.

Cost of sales increased US\$199 million, or 56.5%, to US\$551 million (2007: US\$352 million). Excluding the new aluminium smelter, cost of sales increased US\$99 million, or 28.4%, to US\$448 million (2007: US\$349 million). The underlying increase was due to higher materials, labour and other costs, partially offset by lower inventory. On a per tonne basis, the cost of sales of alumina rose to US\$244 per tonne (2007: US\$205 per tonne).

Distribution costs increased US\$12 million, or 40.0%, to US\$42 million (2007: US\$30 million), principally transportation costs related to the new aluminium production.

The Division's operating profit increased US\$59 million, or 37.1%, to US\$218 million (2007: US\$159 million).

## Energy Division

In millions of US\$	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Revenue	436	314	38.9%
Third parties	203	181	12.2%
Intercompany	233	133	75.2%
Cost of sales	(194)	(161)	20.5%
<b>Gross profit</b>	<b>242</b>	<b>153</b>	<b>58.2%</b>
Gross margin %	<b>55.5%</b>	<b>48.7%</b>	
Distribution costs	(71)	(55)	29.1%
General and administrative expenses	(21)	(33)	(36.4)%
Net other operating (expenses)/income	(4)	6	(166.7)%
<b>EBIT</b>	<b>146</b>	<b>71</b>	<b>105.6%</b>
EBIT margin %	<b>33.5%</b>	<b>22.6%</b>	
Depreciation, amortisation and impairment	(31)	(36)	(13.9)%
<b>Underlying EBITDA</b>	<b>177</b>	<b>107</b>	<b>65.4%</b>
Underlying EBITDA margin %	<b>40.6%</b>	<b>34.1%</b>	

Key Facts		Year ended 31 December	
		2008	2007
<b>Sales Volumes</b>			
Third-party coal	'000t	8,044	6,397
Third-party electrical energy	GWh	2,825	4,192
<b>Prices</b>			
Coal	US\$/tonne	17	15
Electrical energy	US\$/MWh	22	17
<b>Unit Costs*</b>			
Coal	US\$/tonne	4	4
Electrical energy	US\$/MWh	10	8

\* Unit costs: Cost of sales divided by sales volumes.

## **Energy Division**

In 2008 the Energy Division extracted 19,790 thousand tonnes (2007: 18,442 thousand tonnes) of coal from the Vostochny mine, in line with the planned expansion. The Division's internal coal consumption fell 3.7% to 7,148 thousand tonnes, or 36.1% of total extraction (2007: 7,423 thousand tonnes; 40.3%), as one power generation turbine was taken off-line for planned refurbishment. The turbine was back on-line in Q4 2008.

Sales of coal to other Group Divisions saw solid growth, rising 4.1% to 4,773 thousand tonnes, or 24.1% of total extraction, (2007: 4,584 thousand tonnes; 24.9%). There was growth in external coal sales to 8,044 thousand tonnes (2007: 6,397 thousand tonnes). Electricity generation fell 4.0% to 11,640 GWh (2007: 12,121 GWh), with lower capacity due to the planned maintenance of one turbine for much of the year that came back on stream in Q4 2008 and reduced demand in Q4 2008 with the effects on demand of the economic downturn. Sales of electricity to other Group Divisions increased to 68.5% of electricity generated (2007: 58.0%), reflecting the impact of the new aluminium smelter.

The Energy Division's third party revenue increased US\$22 million, or 12.2%, to US\$203 million (2007: US\$181 million). This growth was due to a US\$44 million increase in revenue from sales of coal to third parties, resulting from growth of 25.7% in the volume of coal sold and a 13.3% increase in the average price achieved. A 29.4% increase in the average electricity tariff led to additional revenue of US\$13 million. This was offset by a 32.6% reduction in the volume of electricity sold as more electricity was consumed within the Group and, as mentioned previously, because of reduced generator capacity. The Division's sales to other Group entities increased US\$100 million, or 75.2%, to US\$233 million (2007: US\$133 million).

Cost of sales increased US\$33 million, or 20.5%, to US\$194 million (2007: US\$161 million). The increase was driven largely by growth in labour costs, partially offset by reduced material costs.

Distribution costs increased US\$16 million, or 29.1%, to US\$71 million (2007: US\$55 million). This was due to higher tariffs imposed by the Kazakhstani State railroad.

The Division's operating profit increased US\$75 million, or 105.6%, to US\$146 million (2007: US\$71 million).

## Logistics Division

In millions of US\$	Year ended 31 December		2008 vs 2007 %
	2008	2007	
Revenue	<b>229</b>	232	(1.3)%
Third parties	<b>107</b>	149	(28.2)%
Intercompany	<b>122</b>	83	47.0%
Cost of sales	<b>(152)</b>	(179)	(15.1)%
<b>Gross profit</b>	<b>77</b>	53	45.3%
Gross margin %	<b>33.6%</b>	22.8%	
Distribution costs	-	-	n/a
General and administrative expenses	<b>(47)</b>	(29)	62.1%
Net other operating (expenses)/income	<b>2</b>	3	(33.3)%
<b>EBIT</b>	<b>32</b>	27	18.5%
EBIT margin %	<b>14.0%</b>	11.6%	
Depreciation, amortisation and impairment	<b>(18)</b>	(17)	5.9%
<b>Underlying EBITDA</b>	<b>50</b>	44	13.6%
Underlying EBITDA margin %	<b>21.8%</b>	19.0%	

<b>Key Facts</b>		Year ended 31 December	
		2008	2007
<b>Sales Volumes</b>			
Third-party freight forwarding	'000t	<b>11,248</b>	7,495
Railway line repairs	km	<b>408</b>	529
<b>Prices</b>			
Freight forwarding	US\$/tonne	<b>0.95</b>	0.94
Railway line repairs	US\$ '000km	<b>215</b>	232
<b>Unit Costs*</b>			
Freight forwarding	US\$/tonne	<b>1.2</b>	0.8
Railway line repairs	US\$ '000km	<b>204</b>	207

\* Unit costs: Cost of sales divided by sales volumes.

## **Logistics Division**

During the first nine months of 2008 there was a solid growth in the tonnage of the Group's internal products transported by railway by the Logistics Division. In Q4 2008 transportation volumes dropped 16.7% compared to Q3 2008. In 2008 the Logistics Division transported 58,489 thousand tonnes (2007: 60,855 thousand tonnes), a decline of 3.9%. The volume of third-party freight forwarding rose 50.1% to 11,248 thousand tonnes (2007: 7,495 thousand tonnes).

External railroad repair services volumes decreased 22.9% to 408 kilometres (2007: 529 kilometres). This was due to delays in the tendering process for some contracts. In addition the Kazakhstani State railway company, the major customer, used its own materials for some railroad repair works which impacted revenue and related cost of sales.

The Division's third party revenue declined US\$42 million, or 28.2%, to US\$107 million (2007: US\$149 million), mainly due to a reduced volume of railway repairs. Sales to other Group Divisions increased US\$39 million, or 47.0%, to US\$122 million (2007: US\$83 million).

Cost of sales decreased US\$27 million, or 15.1%, to US\$152 million (2007: US\$179 million), mainly as a result of reduced volumes of railroad repairs and customers' own materials being utilised in some projects, reducing costs incurred for repairs and maintenance.

Selling, general and administrative expenses increased US\$18 million, or 62.1%, to US\$47 million (2007: US\$29 million).

The Division's operating profit increased US\$5 million, or 18.5%, to US\$32 million (2007: US\$27 million).

## INCOME TAX EXPENSE

The Group's income tax expense for the year ended 31 December 2008 is US\$1,143 million (2007: US\$507 million) an effective tax rate of 29.9% (2007: 38.4%).

The tax expense in 2008 benefited from a release of deferred tax liabilities of US\$177 million. This arose from the new Tax Code of the Republic of Kazakhstan effective 1 January 2009, announced in mid-December 2008, which reduced the future rates of Corporate Income Tax. This was partly offset by a higher charge for Excess Profit Tax, arising from increased revenue, amounting to US\$90 million (2007: US\$38 million).

Excluding the one-off benefit from the release of the deferred tax liability and the effects of one-off statutory provisions the effective tax rate was 33.5%.

The tax rate in 2007 was adversely affected by non-allowable IPO-related costs and other disallowed expenses.

## LIQUIDITY

The Group aims to manage liquidity risk through the maintenance of sufficient cash to finance the ongoing operating and investing activities of the Group. Healthy production volumes and record prices in many of our key commodities during 2008 resulted in the generation of strong cash flows throughout our operations.

### Overview

The following table provides a summarised cash flow statement for the years ended 31 December 2008 and 31 December 2007:

In millions of US\$	Year ended 31 December	
	2008	2007
Net cash generated from operating activities	2,766	1,079
Net cash used for investing activities	(1,919)	(1,351)
Net cash (used for)/generated from financing activities	(854)	2,481
Net changes in cash and cash equivalents	(7)	2,209
Cash and cash equivalents at beginning of year	2,548	336
Exchange (loss)/gain on cash and cash equivalents	(48)	3
<b>Cash and cash equivalents at end of year</b>	<b>2,493</b>	<b>2,548</b>

### Net cash generated from operating activities

The Group generated cash of US\$2,766 million (2007: US\$1,079 million) from operating activities. The increase of US\$1,687 million was largely due to the rise in revenue from higher commodity sales prices in the first nine months of 2008.

### Net cash used for investing activities

In 2008 the Group utilised US\$1,919 million for investing activities (2007: US\$1,351 million), an increase of US\$568 million, or 42.0%. This largely consisted of purchases of property, plant and equipment amounting to US\$1,479 million, and the acquisitions of Serov: US\$72 million; BML US\$317 million; and Tuoli US\$15 million.

### Net cash flow used for financing activities

The Group used cash resources of US\$854 million for its financing activities in 2008, primarily for the repayment of bank borrowings of US\$704 million and dividends paid to shareholders in the period of US\$148 million.

## CAPITAL EXPENDITURE

During the year ended 31 December 2008 the Group's capital expenditure amounted to US\$1,294 million (2007: US\$911 million), an increase of US\$383 million, or 42.0%.

The allocation of capital expenditures the new construction and development projects is presented in the table below. We will, where possible, seek external financing to fund a number of the major capital expenditure projects.

Approximately US\$4.3 billion of the expansionary capital expenditure has been deferred with management focusing its attention on replacement and productivity enhancing capital expenditure.

In millions of US\$	Estimated total cost <sup>1</sup>	Capex budget 2009	Project status	Date of commissioning
<b>Ferroalloys</b>				
700 thousand tonnes pelletiser	110	10	In Progress	2009
Mine expansion	30	5	In Progress	2012
440 thousand tonnes expansion/replacement of ferroalloy smelting capacity (Aktobe) <sup>2</sup>	590	120	In Progress	2012
460 thousand tonnes expansion of ferroalloys smelting capacity (Aksu)	540	20	Deferred	TBD
<b>Iron ore</b>				
Mine expansion (9 mtpa)	525	-	Deferred	TBD
Pelletiser (5 mtpa) and DRI plant (2.8 mtpa)	1,300	-	Deferred	TBD
<b>Alumina and Aluminium</b>				
Aluminium smelter (Phase 2: 125 ktpa)	305	120	In Progress	2010
Anode production plant	200	75	In Progress	2011
Alumina production expansion - remaining 200 thousand tonnes	240	-	Deferred	TBD
Sandy alumina production, soda plant	240	-	Deferred	TBD
<b>Energy</b>				
Overburden stripping equipment	85	50	In Progress	2010
Construction of Turbine 2 - 325 megawatt	200	100	In Progress	2011
Construction of 2 x 600 megawatt turbines	1,260	-	Deferred	TBD
Coal mine expansion (5 mtpa)	230	-	Deferred	TBD
<b>Logistics</b>				
'China Gateway' Project	910	100	In Progress	2011
<b>Sub-total</b>	<b>6,765</b>	<b>600</b>		
Capital repairs and other projects <sup>3</sup>	400	400		
<b>Total approved capital expenditure</b>	<b>7,165</b>	<b>1,000</b>		

<sup>1</sup> Original estimated total cost approved by the Board.

<sup>2</sup> Approximately 270 thousand tonnes per annum of existing ferroalloys capacity is expected to be retired after the new capacity is operational.

<sup>3</sup> Includes investment in planned mine expansion and other small investments.

## **CONTRACTUAL OBLIGATIONS**

### **Long term supply agreements**

The Group has the following key long-term supply agreements:

- Alumina – ENRC has a contract with UC RUSAL, a large aluminium producer, to supply a minimum of 1.2 million tonnes of alumina per annum, plus an option to supply an additional 200 thousand tonnes per annum. The contract expires on 31 December 2016. Pricing is determined by a formula linked to the LME aluminium price; and
- Iron ore – ENRC has a contract with MMK, a large Russian steel producer, to supply, up to 15 million tonnes per annum of saleable iron ore concentrate and pellets. This contract expires in 2017. Pricing is determined by reference to published price indices for iron ore concentrates and pellets.

## **PRINCIPAL RISKS AFFECTING THE GROUP'S RESULTS OF OPERATIONS**

Details of the Group's risk factors were set out in our Annual Report for the year ended 31 December 2007 on pages 22 and 23. An update on those risks was included in the announcement of Half-year Results. The material risks that have significantly changed since then are described below.

### **Slowdown in the growth of the economies of key customers**

The Group's sales of products from some segments are predominantly to customers based in Russia and China (2008 54.0% of Group revenue). The Group made 31.6% of its ferroalloys sales, 93.1% of its iron ore sales and 62.4% of its alumina and aluminium sales to customers in Russia and China. These economies experienced high rates of growth in 2008, especially in the first half, but such levels of growth are not expected in 2009. The significant slowdown in the global economy as a whole and the consequential impact on the export-led growth of the economies of these countries has brought about a decrease in demand for the Group's products and is also creating downward pressures on sales prices.

The Group's responses to the slowdown in the global economy were:

- Production was cut back in the Ferroalloys and Iron Ore Divisions;
- Staff costs reduced by the suspension of sub-contractors, reduced shifts, job shares, unpaid leave and salary and hiring freezes and pay cuts for senior management, initially on a temporary basis; and
- The capital expenditure programme was significantly reduced, with priority being given to replacement and productivity enhancing projects with other projects deferred.

Our production cutbacks have resulted in an increase in fixed costs per unit of production. Also the recent devaluation in the Kazakhstani tenge against the US dollar, though initially favourable to our cost base, may result in inflationary pressure in the medium term in Kazakhstan.

The Group's businesses remain relatively low cost, occupying the lower third of the cost curve. This is a key advantage that we will focus on maintaining and, where possible, reinforcing, through the present downturn. Crucial to our success is that our businesses are underpinned by the security of our logistics and low cost energy supply.

### **Commodity prices**

The Group generates most of its revenue from the sale of commodities. Historically, prices for our products fluctuated widely in response to changes in supply and demand, market uncertainties, an increase in capacity or an oversupply of the Group's products in its main markets, the performance of global or regional economies and cyclicalities in those industries that purchase these products. This was particularly evident in the last quarter of 2008 when prices fell substantially.

These external factors make it difficult to estimate future prices. A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the financial results and cash flows of operations.

The Group's response to commodity price risks has been to:

- Closely monitor the market prices and total volumes of sales of key commodities;
- Monitor internal levels of inventory of key commodities to help inform production and sales planning decisions;
- Produce regular forecasts of sales volumes and prices for each of the Group's commodities; and
- Discuss and agree appropriate production and distribution plans with the management of the Group's operating companies.

The Group does not hedge its exposure to the risk of fluctuations in the prices of its commodity products.

### **Credit default by key customers**

The impact of the current economic downturn has been to place increased financial pressure on the Group's customers and on their ability to pay amounts due to the Group in accordance with agreed terms of trade. With a high concentration of customers, particularly MMK and RUSAL, in the Iron Ore and Alumina and Aluminium Divisions this is a significant risk for us.

The Group's response to the risk of a credit default by key customers has been to:

- Maintain relationships with all its key customers but also to develop new customer relationships in Russia, China and elsewhere in the region to diversify customer default risk;
- Maintain credit insurance against the risk of default by major customers, where insurance cover is available;
- Set reduced credit limits and payment terms for all major customers; and
- Regularly monitor compliance with these terms and any developments in the amounts receivable from customers.

### **Financial counterparty default**

The Group has significant surplus funds, arising from IPO proceeds and from operational cash flows, which it invests with counterparties primarily in the UK and Kazakhstan. In making these investments the Group runs the risk that a counterparty may default on the repayment of the investment funds when they fall due. As at 31 December 2008 the amounts invested with financial institutions totalled US\$1,557 million.

The Group's response to financial counterparty default risk has been to:

- Adopt strict criteria for investment which may only be made with counterparties which are included on a Permitted Investment list;
- Monitor individual counterparty exposures against limits which are based on published credit ratings or, where these are not available, an internal assessment of the counterparty's financial strength; and
- Review the credit ratings of all approved counterparties each month and make adjustments to the maximum exposure limits.

### **Liquidity and working capital**

Despite the impact of the economic downturn on the availability of funding in the marketplace, the Group has sufficient cash resources available to meet both current investment projects and operating working capital needs.

## **FACTORS AFFECTING COMPARABILITY**

Key factors affecting comparability of the Group's results of operations and financial condition include:

### **Relationship with MMK**

MMK has been one of the Group's principal customers. In Q1 2007 the results of operations of the Iron Ore Division were materially and adversely affected by protracted contractual negotiations with MMK, which resulted in reduced prices.

The Group and MMK reached agreement and signed a long-term supply contract that became effective in April 2007 and will expire in 2017. Under this agreement, MMK is required to purchase specified quantities of iron ore products at prices determined by reference to published world price indices for concentrates and pellets. Prices are revised each year on 1 April.

In light of the current economic downturn and the impact on our customer MMK, in Q4 2008 we agreed to temporarily waive the minimum contractual sales volume (refer to Operating Review).

### **Initial Public Offering ('IPO')**

The Group undertook an Initial Public Offering in Q4 2007. This resulted in the receipt of US\$3.1 billion of cash proceeds in December 2007. In 2007 costs amounting to US\$278 million were incurred in connection with the IPO. Of these, US\$96 million were recorded in the share premium account as directly attributable to the equity cost and US\$182 million were recorded within 'selling, general and administrative expenses' in the Income Statement. Given the non-recurring nature of these costs, they have been classified in the income statement as 'exceptional items' and hence excluded from underlying EBITDA.

### **Production cutbacks in Q4 2008**

In the Ferroalloys Division, in response to the significant weakening in demand following the economic slowdown, ferrochrome production volumes were cut in Q4 2008 by approximately 35% (referenced to the 2007 sales volumes), or 85 thousand tonnes, principally high-carbon ferrochrome, with an accompanying reduction in chrome ore extraction. In addition the Group cut back production in the higher cost operations of Serov, by approximately 40% against Q3 2008, and in Tuoli where production was suspended. Late in 2008 the Ferroalloys Division cut back a further 15 thousand tonnes, sales being supplied from inventory, in order to minimise stock being carried forward. In Q4 2008 total ferroalloys production (excluding Serov and Tuoli) declined 33.9% relative to Q3 2008, reducing full year production of the like-for-like businesses to below that of the prior year. Manganese related production, a product of opportunity for the Group although not a significant business, was reduced in response to the market environment.

In the Iron Ore Division, production of primary concentrate was cut in Q4 2008 by approximately 50% (referenced to the 2007 sales volumes), or approximately 2 million tonnes, with an accompanying reduction in iron ore extraction.

### **Acquisitions**

We completed the acquisition of a controlling interest in the Serov group and certain related entities ('Serov') in early April 2008. Serov is a ferroalloy producer in eastern Russia. In mid-October 2008 the Group announced the completion of the acquisition of a 50% stake in Xinjiang Tuoli Taihang Ferro-Alloy Co. ('Tuoli'), a Chinese ferroalloys producer.

The acquisition of a 50% interest in Bahia Minerals BV ('BML') was announced on 19 May 2008. BML is focused on the development of an iron ore deposit in the Bahia State of Brazil.

## CONSOLIDATED INCOME STATEMENT (Unaudited)

In millions of US\$	Note	Year ended 31 December	
		2008	2007
Revenue		<b>6,823</b>	4,106
Cost of sales	5	<b>(2,088)</b>	(1,701)
<b>Gross profit</b>		<b>4,735</b>	2,405
Distribution costs	6	<b>(431)</b>	(373)
Selling, general and administrative expenses	7	<b>(422)</b>	(606)
Net other operating expenses		<b>(32)</b>	(5)
<b>Operating profit</b>		<b>3,850</b>	1,421
Finance income	8	<b>132</b>	58
Finance cost	9	<b>(143)</b>	(158)
Share of loss of joint venture	12	<b>(12)</b>	-
<b>Profit before income tax</b>		<b>3,827</b>	1,321
Income tax expense	10	<b>(1,143)</b>	(507)
<b>Profit for the period</b>		<b>2,684</b>	814
Profit is attributable to:			
Equity shareholders of the Group	11	<b>2,642</b>	798
Minority interests		<b>42</b>	16
Earnings per share – basic and diluted (US cents)	11	<b>205</b>	79
Interim dividend per share (US cents)		<b>12</b>	-

## CONSOLIDATED BALANCE SHEET (Unaudited)

In millions of US\$	Note	As at 31 December	
		2008	2007
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		4,282	3,232
Goodwill and intangible assets		495	390
Investments in joint ventures	12	313	-
Loans receivable		70	7
Deferred tax assets		32	8
Other non-current assets		429	322
<b>Total non-current assets</b>		<b>5,621</b>	<b>3,959</b>
<b>Current assets</b>			
Current assets held for sale		3	-
Inventories		724	438
Trade and other receivables		1,090	1,045
Financial assets		81	170
Loans receivable		2	28
Cash and cash equivalents		2,493	2,548
<b>Total current assets</b>		<b>4,393</b>	<b>4,229</b>
<b>Total assets</b>		<b>10,014</b>	<b>8,188</b>
<b>Equity</b>			
Share capital and share premium		3,257	3,257
Reserves		4,915	2,457
<b>Attributable to the Group's equity shareholders</b>		<b>8,172</b>	<b>5,714</b>
Minority interests		126	75
<b>Total equity</b>		<b>8,298</b>	<b>5,789</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings		372	1,065
Deferred tax liabilities		183	295
Asset retirement obligations		69	86
Employee benefit obligations		37	52
Derivative financial instruments		-	51
Other non-current liabilities		5	-
<b>Total non-current liabilities</b>		<b>666</b>	<b>1,549</b>
<b>Current liabilities</b>			
Borrowings		355	359
Trade and other payables		411	370
Derivative financial instruments		54	-
Current income tax payable		181	28
Other taxes payable		49	93
<b>Total current liabilities</b>		<b>1,050</b>	<b>850</b>
<b>Total liabilities</b>		<b>1,716</b>	<b>2,399</b>
<b>Total liabilities and equity</b>		<b>10,014</b>	<b>8,188</b>

## CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

In millions of US\$	Note	Year ended 31 December	
		2008	2007
<b>Net cash generated from operating activities</b>		<b>2,766</b>	1,079
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment		(1,479)	(1,042)
Proceeds from sales of property, plant and equipment		5	71
Purchase of intangible assets		-	(1)
Purchase of joint ventures	12	(317)	-
Proceeds from sales of investments		-	24
Purchase of financial assets at fair value through profit and loss		(76)	-
Purchase of available-for-sale financial assets		(15)	-
Purchase of financial assets held to maturity		(4)	-
Payments of pre-acquisition dividends on subsidiaries acquired	12	(61)	-
Acquisition of subsidiaries, net of cash acquired	12	(86)	-
Prepayments for acquisition of subsidiary	12	-	(100)
Loans and deposits granted to related parties		(54)	(119)
Loans and deposits granted		(150)	(243)
Proceeds from repayment of loans and deposits to related parties		144	21
Proceeds from repayment of other loans and deposits		174	38
<b>Net cash used for investing activities</b>		<b>(1,919)</b>	(1,351)
<b>Cash flow from financing activities</b>			
Bank borrowings – proceeds		24	1,423
Bank borrowings – repayments		(704)	(229)
Related party borrowings – repayments		-	(1,011)
Bond repayments		(21)	-
Dividends paid to equity shareholders		(148)	(500)
Dividends paid to minority interests		(5)	(66)
Proceeds from issuance of shares		-	3,055
Shareholders' Settlement Agreement - repayment		-	(191)
<b>Net cash (used for)/generated from financing activities</b>		<b>(854)</b>	2,481
<b>Net changes in cash and cash equivalents</b>		<b>(7)</b>	2,209
Cash and cash equivalents at beginning of year		2,548	336
Exchange (loss)/gains on cash and cash equivalents		(48)	3
<b>Cash and cash equivalents at end of year</b>		<b>2,493</b>	2,548

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Attributable to equity holders of the Group

In millions of US\$	Share capital	Share premium	Retained earnings	Translation reserve	Revaluation reserve of financial assets available-for-sale	Hedge reserves	Total	Minority interests	Total equity
Balance as at 31 December 2006	200	-	1,799	212	-	-	2,211	61	2,272
<b>Profit for the year</b>	-	-	798	-	-	-	798	16	814
Currency translation differences	-	-	-	165	-	-	165	3	168
Total recognised income and expense for six months ended 31 December 2007	-	-	798	165	-	-	963	19	982
Dividends paid	-	-	(500)	-	-	-	(500)	-	(500)
Shares issued on initial public offering	58	2,999	-	-	-	-	3,057	-	3,057
Unrealised loss on cash flow hedge	-	-	-	-	-	(17)	(17)	-	(17)
Other changes in minority interest	-	-	-	-	-	-	-	(5)	(5)
<b>Balance as at 31 December 2007</b>	<b>258</b>	<b>2,999</b>	<b>2,097</b>	<b>377</b>	<b>-</b>	<b>(17)</b>	<b>5,714</b>	<b>75</b>	<b>5,789</b>
<b>Profit for the year</b>	-	-	2,642	-	-	-	2,642	42	2,684
Currency translation differences	-	-	-	(20)	-	-	(20)	(3)	(23)
<b>Total recognised income and expense for the year ended 31 December 2008</b>	-	-	2,642	(20)	-	-	2,622	39	2,661
Dividends paid	-	-	(155)	-	-	-	(155)	(4)	(159)
Share-based payments	-	-	3	-	-	-	3	-	3
Other changes in minority interest	-	-	-	-	-	-	-	16	16
Unrealised loss	-	-	-	-	(8)	(4)	(12)	-	(12)
<b>Balance as at 31 December 2008</b>	<b>258</b>	<b>2,999</b>	<b>4,587</b>	<b>357</b>	<b>(8)</b>	<b>(21)</b>	<b>8,172</b>	<b>126</b>	<b>8,298</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BASIS OF PREPARATION

The preliminary financial information for the year ended 31 December 2008 included in this report is unaudited and does not have the status of statutory accounts within the meaning of Section 240 of the Companies Act 1985 (Section 435 of the Companies Act 2006). The preliminary financial information is based on accounts which are subject to audit and the Board approval and filing with the Registrar of Companies.

Statutory accounts for the year ended 31 December 2007 were approved by the Board of Directors on 25 April 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 237 of the Companies Act 1985 (section 498 of the Companies Act 2006).

This preliminary financial information has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations (as adopted by the EU), applicable United Kingdom law and the Listing Rules of the United Kingdom's Financial Services Authority ('FSA') and Article 4 of the EU IAS Regulation.

The Group has made certain presentational changes to further improve comparability of its results and certain comparative amounts have been reclassified accordingly.

### 2. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2007.

Accounting policies applied for the first time for the financial year beginning 1 January 2008 are as follows:

#### **Accounting for interest in joint ventures**

Joint ventures are all entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. The Group has elected to use the equity method to account for interests in jointly controlled entities, which are disclosed as joint ventures in the financial statement and are initially recognised at cost. The Group's investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its joint ventures' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated to the extent of the Group's interest in the joint ventures unless the transaction provides evidence of an impairment of the asset transferred. If an asset is sold at a loss and the loss provides evidence of impairment, then the full amount of the loss is recognised.

### **Share-based payments to employees**

The Group introduced a separate equity-settled, share-based compensation plan, under which the Group receives services from qualifying employees as consideration for equity instruments. The employee services received in exchange for the grant of the equity-settled payments are measured at fair value and are recognised as expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards, subject to the Group's estimate of the number of awards which will lapse due to the employees leaving the Group prior to vesting. The amount recognised in the Income Statement as an expense is adjusted to reflect the actual number of awards that vest.

### **New accounting pronouncement**

The Group has adopted the following new interpretation which is mandatory for the first time for the financial year beginning 1 January 2008:

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', which provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent companies shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the standalone accounts of the parent and group companies. The new interpretation does not significantly affect the Group's financial statements.

### **3. SEGMENT INFORMATION**

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Segment results, assets and liabilities include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables and mainly exclude investments, IPO funds, term deposits and income tax balances. Segment liabilities comprise primarily trade and other payables. Capital expenditure comprises additions to property, plant and equipment and intangible assets. Unallocated items comprise mainly investments and related income, interest-bearing loans, IPO funds, term deposits, borrowings, finance income, finance costs and taxation.

The Group is organised on the basis of five main business segments:

- Ferroalloys – comprises the extraction and sale of chrome ore as well as the production of ferroalloys from chromium and manganese ores;
- Iron Ore – comprises the extraction, processing and manufacturing of iron ore products;
- Alumina and Aluminium – comprises the extraction and processing of bauxite and limestone, and the smelting of alumina and aluminium;
- Energy – comprises coal mining and power generation; and
- Logistics – Kazakhstan's main freight forwarder and railroad operator, providing international logistics for all ENRC operations; also rail construction and repair services for the Kazakhstani state rail company.

Internal charges between segments have been reflected in the performance of each business segment. The Group has a number of activities that exist principally to support the mining operations including power generation, coal mining and transportation. Inter-segment transfers or transactions are entered into on a commercial basis.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 31 December 2007 is set out below.

## 2008 Segmental Analysis

In millions of US\$	Ferroalloys Division	Iron Ore Division	Alumina & Aluminium Division	Energy Division	Logistics Division	Corporate	Intra Group Eliminations	Total
Revenue	4,151	1,498	864	203	107	-	-	6,823
Inter-segment revenue	5	1	3	233	122	-	(364)	-
<b>Segment revenue</b>	<b>4,156</b>	<b>1,499</b>	<b>867</b>	<b>436</b>	<b>229</b>	<b>-</b>	<b>(364)</b>	<b>6,823</b>
<b>Segment operating profit</b>	<b>2,689</b>	<b>835</b>	<b>218</b>	<b>146</b>	<b>32</b>	<b>(70)</b>	<b>-</b>	<b>3,850</b>
Share of loss of joint ventures*								(12)
Finance income								132
Finance costs								(143)
<b>Profit before income tax</b>								<b>3,827</b>
Income tax expense								(1,143)
<b>Profit for the year</b>								<b>2,684</b>
<b>Depreciation, amortisation and impairment</b>	<b>(100)</b>	<b>(84)</b>	<b>(77)</b>	<b>(31)</b>	<b>(18)</b>	<b>(1)</b>	<b>-</b>	<b>(311)</b>
<b>Underlying EBITDA (refer note 14)</b>	<b>2,789</b>	<b>919</b>	<b>295</b>	<b>177</b>	<b>50</b>	<b>(69)</b>	<b>-</b>	<b>4,161</b>
<b>Capital expenditure</b>	<b>330</b>	<b>278</b>	<b>502</b>	<b>136</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>1,294</b>
<b>Segment assets</b>	<b>3,151</b>	<b>1,628</b>	<b>1,935</b>	<b>702</b>	<b>268</b>	<b>99</b>	<b>(45)</b>	<b>7,738</b>
<b>Segment liabilities</b>	<b>(292)</b>	<b>(127)</b>	<b>(146)</b>	<b>(28)</b>	<b>(37)</b>	<b>(44)</b>	<b>45</b>	<b>(629)</b>
								<b>7,109</b>
<b>Unallocated assets and liabilities (net)</b>								<b>199</b>
<b>Investment in joint ventures*</b>								<b>313</b>
<b>IPO funds</b>								<b>1,557</b>
<b>Financial assets</b>								<b>81</b>
<b>Loans receivable</b>								<b>72</b>
<b>Borrowings</b>								<b>(727)</b>
<b>Deferred and current income taxation (net)</b>								<b>(306)</b>
<b>Total equity</b>								<b>8,298</b>
<b>Average number of employees</b>	<b>24,681</b>	<b>17,905</b>	<b>14,094</b>	<b>6,658</b>	<b>2,998</b>	<b>231</b>	<b>-</b>	<b>66,567</b>

\* This relates to BML (iron ore).

Geographic segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set out below:

### Geographic Segmental Analysis

In millions of US\$	Eurasia*	Europe & Middle East	Asia Pac*	Rest of World	Total
Revenue	2,947	1,456	2,022	398	<b>6,823</b>
Assets	6,894	744	67	33	<b>7,738</b>
Capital expenditure	1,291	1	2	-	<b>1,294</b>

\* Eurasia comprises Kazakhstan, Russia and other countries of the former Soviet Union; Asia Pacific comprises China, Korea and Japan.

External revenue is based on where the customer is located. Segment assets and capital expenditure are based on where the assets are located.

## 2007 Segmental Analysis

In millions of US\$	Ferroalloys Division	Iron Ore Division	Alumina & Aluminium Division	Energy Division	Logistics Division	Corporate	Intra Group Eliminations	Total
Revenue	2,178	991	607	181	149	-	-	4,106
Inter-segment revenue	-	-	1	133	83	-	(217)	-
<b>Segment revenue</b>	<b>2,178</b>	<b>991</b>	<b>608</b>	<b>314</b>	<b>232</b>	<b>-</b>	<b>(217)</b>	<b>4,106</b>
<b>Segment operating profit</b>	<b>1,038</b>	<b>359</b>	<b>159</b>	<b>71</b>	<b>27</b>	<b>(233)</b>	<b>-</b>	<b>1,421</b>
Finance income								58
Finance costs								(158)
<b>Profit before income tax</b>								<b>1,321</b>
Income tax expense								(507)
<b>Profit for the year</b>								<b>814</b>
<b>Depreciation, amortisation and impairment</b>	<b>(100)</b>	<b>(89)</b>	<b>(61)</b>	<b>(36)</b>	<b>(17)</b>	<b>-</b>	<b>-</b>	<b>(303)</b>
<b>Exceptional items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(182)</b>	<b>-</b>	<b>(182)</b>
<b>Underlying EBITDA (refer note 14)*</b>	<b>1,140</b>	<b>470</b>	<b>214</b>	<b>107</b>	<b>44</b>	<b>(57)</b>	<b>-</b>	<b>1,918</b>
<b>Capital expenditure</b>	<b>168</b>	<b>227</b>	<b>365</b>	<b>89</b>	<b>57</b>	<b>5</b>	<b>-</b>	<b>911</b>
<b>Segment assets</b>	<b>1,962</b>	<b>1,222</b>	<b>1,396</b>	<b>514</b>	<b>245</b>	<b>52</b>	<b>(27)</b>	<b>5,364</b>
<b>Segment liabilities</b>	<b>(259)</b>	<b>(145)</b>	<b>(117)</b>	<b>(37)</b>	<b>(39)</b>	<b>(76)</b>	<b>27</b>	<b>(646)</b>
								<b>4,718</b>
<b>Unallocated assets and liabilities (net)</b>								<b>201</b>
<b>Prepayment – Serov</b>								<b>100</b>
<b>IPO proceeds</b>								<b>2,461</b>
<b>Loans receivable</b>								<b>35</b>
<b>Borrowings</b>								<b>(1,424)</b>
<b>Deferred and current income taxation (net)</b>								<b>(302)</b>
<b>Total equity</b>								<b>5,789</b>
<b>Average number of employees</b>	<b>21,020</b>	<b>19,420</b>	<b>13,870</b>	<b>6,420</b>	<b>3,200</b>	<b>220</b>		<b>64,150</b>

\* In 2008 a decision was taken to report underlying EBITDA (refer note 14) rather than the previously reported EBITDA measure.

Geographic segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

## Geographic Segmental Analysis

In millions of US\$	Eurasia*	Europe & Middle East	Asia Pac*	Rest of World	Total
Revenue	2,167	566	1,114	259	4,106
Assets	4,655	609	47	53	5,364
Capital expenditure	907	4	-	-	911

\* Eurasia comprises Kazakhstan, Russia and other countries of the former Soviet Union; Asia Pacific comprises China, Korea and Japan.

External revenue is based on where the customer is located. Segment assets and capital expenditure are based on where the assets are located.

#### 4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

##### Founder Shareholders

The Group was formed from a collection of entities jointly controlled by the three Founder Shareholders, Mr Patokh Chodiev, Mr Alijan Ibragimov and Mr Alexander Machkevitch. During the reporting periods, the Group undertook significant related party transactions with entities controlled by the three Founder Shareholders.

The table below summarises related party transactions with entities under control of the Founder Shareholders:

In millions of US\$	Year ended 31 December	
	2008	2007
<b>Revenue from sale of goods</b>		
Ferrous alloys <sup>1</sup>	37	95
Iron ore	2	5
Energy	5	8
<b>Other income</b>		
Insurance, commission and other income	13	23
<b>Expenses</b>		
Purchases of raw materials <sup>2</sup>	(115)	(79)
Insurance	(27)	(45)
Purchases of services	(16)	(3)
Other	(11)	(28)
Rental expenses	(10)	(7)
Bank charges	(7)	(8)
<b>Finance income</b>	11	28
<b>Finance costs</b>	(3)	(36)

<sup>1</sup> Mainly to Serov pre-acquisition

<sup>2</sup> Purchase of raw materials largely comprises purchase of coal and coke from Shubarkol and IMR BV.

The outstanding balances with entities under control of the Founder Shareholders and other related parties at 31 December 2008 and 31 December 2007 are as follows:

In millions of US\$	As at 31 December	
	2008	2007
<b>Non-current assets</b>		
Loans receivable	51	7
Other non-current assets	29	114
<b>Current assets</b>		
Trade and other receivables	31	107
Loans receivable net of provision for impairment	2	26
Term deposits	1	138
Cash and cash equivalents	319	76
<b>Current liabilities</b>		
Borrowings	-	1
Trade and other payables	13	6

Term deposits and cash and cash equivalents represent balances held with Eurasian Bank JSC.

The effective interest rate for short-term deposits for the year ended 31 December 2008 is 8.4% (2007: 8.4%). Cash and cash equivalents held at Eurasian Bank JSC bear zero interest rate (2007: zero). In 2007 the Group agreed to maintain certain existing term deposits with Eurasian Bank JSC until October 2008. As at 31 December 2007 such deposits amounted to US\$123 million and had been fully withdrawn at 31 December 2008. The balance of US\$320 million in cash and cash equivalents and term deposits at 31 December 2008 had no such restrictions.

In the period since acquisition, several loan facilities have been granted to BML and Ardila Investments NV to finance certain capital and operating expenditure. Refer to note 12.

The Group acquired Serov from a company controlled by the Founder Shareholders. Connected with this transaction pre-acquisition dividends of US\$57 million were paid to the Founder Shareholders and US\$4 million was paid to an associated company (related to coal profits which were not included in the acquisition). The Group paid a 'finders fee' of US\$9 million in respect of the acquisition of the BML stake and US\$1 million consideration for the acquisition of Metallurg to a company controlled by the Founder Shareholders. All of these are disclosed in note 12.

During 2008, the Group granted a loan to TransRemMach LLP. This loan bears interest at the rate of 12.0% per annum. As at 31 December 2008, the balance of this loan was US\$7 million.

Other rights and obligations with related parties at 31 December 2008 and 31 December 2007 are set out below:

In millions of US\$	As at 31 December	
	2008	2007
Guarantees issued by the Group	19	19

## 5. COST OF SALES

In millions of US\$	Year ended 31 December	
	2008	2007
Materials and components used	(1,172)	(835)
Staff costs	(423)	(354)
Depreciation and amortisation	(296)	(271)
Other cost of sales	(197)	(241)
<b>Total cost of sales</b>	<b>(2,088)</b>	<b>(1,701)</b>

## 6. DISTRIBUTION COSTS

In millions of US\$	Year ended 31 December	
	2008	2007
Transportation costs	(342)	(269)
Other distribution costs	(89)	(104)
<b>Total distribution costs</b>	<b>(431)</b>	<b>(373)</b>

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In millions of US\$	Year ended 31 December	
	2008	2007
Staff costs	(154)	(290)
Professional and other services	(50)	(74)
Sponsorship and donations	(31)	(34)
Depreciation, amortisation and impairment	(15)	(32)
Other selling, general and administrative expenses	(172)	(176)
<b>Total selling, general and administrative expenses</b>	<b>(422)</b>	<b>(606)</b>
<b>Costs incurred in relation to the initial public offering (exceptional items)</b>	<b>-</b>	<b>(182)</b>

### Exceptional item

Costs expensed for the year ended 31 December 2007, in relation to the initial public offering, are US\$182 million of which US\$150 million IPO bonuses are included in staff costs in the table above. The remaining US\$32 million is in professional and other services in the table above.

## 8. FINANCE INCOME

In millions of US\$	Year ended 31 December	
	2008	2007
Interest income from money market funds	55	-
Bank interest income	54	33
Foreign exchange gains	13	-
Interest income from loans and receivables	10	25
<b>Total finance income</b>	<b>132</b>	<b>58</b>

## 9. FINANCE COST

In millions of US\$	Year ended 31 December	
	2008	2007
Foreign exchange losses	(55)	(9)
Interest expense	(44)	(93)
Other finance costs	(24)	(27)
Unwinding of asset retirement obligation discount	(7)	(4)
Fair value loss on financial assets at fair value through profit or loss	(6)	-
Unwinding of employee benefits expense	(5)	(1)
Amortisation of financial instruments discount	(3)	(26)
Less capitalised borrowing costs	1	2
<b>Total finance costs</b>	<b>(143)</b>	<b>(158)</b>

## 10. INCOME TAXES

Income tax expense comprises the following:

In millions of US\$	Year ended 31 December	
	2008	2007
Corporate income tax – current period	(1,255)	(474)
Corporate income tax – prior period	(12)	(22)
Deferred income tax benefit/(expense) – current period	124	(11)
<b>Total income tax expense for the period</b>	<b>(1,143)</b>	<b>(507)</b>

## 11. EARNINGS PER SHARE

Basic earnings per share ('EPS') is calculated by dividing net profit for the year attributable to ordinary equity shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

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

In millions of US\$	Year ended 31 December	
	2008	2007
<b>Net profit attributable to equity shareholders of the Group</b>	<b>2,642</b>	798
Exceptional items attributable to equity shareholders of the Group	-	182
Net profit before exceptional items	<b>2,642</b>	980
Number of shares:		
Weighted average number of ordinary shares*	<b>1,287,750,000</b>	1,015,767,123
Adjusted for:		
Share-based awards	<b>489,628</b>	
Weighted average number of ordinary shares for diluted earnings per share	<b>1,288,239,628</b>	1,015,767,123
<b>EPS – basic and diluted (US cents)</b>	<b>205</b>	79
<b>EPS before exceptional items (US cents)</b>	<b>205</b>	97

\* For the twelve months ended 31 December 2007, the EPS calculation has assumed that the ordinary shares in issue pursuant to share exchange agreements in relation to the acquisition of the Group have been in issue throughout the period, and is calculated after taking into account the share split which occurred on 8 November 2007.

## 12. ACQUISITION OF SUBSIDIARIES AND JOINT VENTURES

### Serov

On 3 April 2008 a controlling interest in the Serov group and certain related entities ('Serov') (see below) was acquired by the Group. The purchase price was US\$210 million.

Serov's principal activity comprises the mining of chrome ore, processing and sale of ferroalloys.

The acquisition of Serov consisted of the following ownership interests:

	<b>Effective ownership interest</b>
OAO Serov Ferrochrome Factory	95.3%
OAO Saranovskaya Mine 'Rudnaya'	88.2%
OAO Serov Metalconcentrate Works	97.7%
OOO Industrial Metals	100.0%
IMR Marketing AG	100.0%
DDK Services Limited	100.0%

Since the date of acquisition up to 31 December 2008, Serov contributed US\$496 million of revenue and US\$156 million of profit after tax. If the acquisition had occurred on 1 January 2008, Serov would have recorded US\$632 million of revenue and profit after tax of US\$197 million.

If the acquisition had occurred on 1 January 2008, Group consolidated revenue and Group consolidated profit after tax for the year ended 31 December 2008 would have been, respectively, US\$6,917 million and US\$2,726 million.

Details of the net assets acquired and goodwill are as follows:

In millions of US\$	
<b>Purchase consideration:</b>	
Cash paid	210
Direct costs related to the acquisition	2
<b>Total purchase consideration</b>	<b>212</b>
Fair value of net identifiable assets acquired (see below)	(136)
<b>Goodwill</b>	<b>76</b>

Goodwill in the amount of US\$67 million was allocated to Kazchrome, in the Ferroalloys Division, on the basis of economic benefits arising from the assets acquired. The goodwill is attributable to the value derived by the Group from additional pricing power in the low-carbon ferroalloys market.

The assets and liabilities arising from the acquisition are as follows:

In millions of US\$	Acquiree's carrying amount	Fair value
Cash and cash equivalents	40	40
Property, plant and equipment	67	128
Inventories	40	79
Trade and other receivables	83	69
Borrowings	(9)	(9)
Trade and other payables (refer note 4)	(93)	(140)
Deferred tax assets/(liabilities), net	1	(20)
<b>Net assets</b>	<b>129</b>	<b>147</b>
Minority interest	(4)	(11)
<b>Net identifiable assets acquired</b>	<b>125</b>	<b>136</b>

Outflow of cash to acquire business, net of cash acquired:

In millions of US\$	
Cash consideration paid in 2007	100
Cash consideration paid in 2008	110
Direct costs relating to the acquisition	2
Cash and cash equivalents in subsidiary acquired	(40)
Cash outflow on acquisition in 2007	100
Cash outflow on acquisition in 2008	72
<b>Total cash outflow on acquisition</b>	<b>172</b>

#### **Xinjiang Tuoli Taihang Ferro-Alloy Co. ('Tuoli')**

In October 2008, the Group completed the acquisition of a 50% interest in Tuoli, a Chinese ferroalloys producer, for a cash consideration of US\$15 million. The Group has consolidated Tuoli, reflecting the control it exercises over the operations.

Net assets acquired were US\$7 million; this is equivalent to the fair values. Goodwill in the amount of US\$8 million was allocated to Kazchrome, in the Ferroalloys Division, on the basis of economic benefits arising from the assets acquired.

#### **Metallurg LLP ('Metallurg')**

On 1 October 2008 the Group acquired 100% of Metallurg, an unlisted company based in Kazakhstan dealing with metal scrap trading, for a cash consideration of US\$1 million. On acquisition the Group recognised US\$1 million of goodwill.

### **Bahia Minerals BV ('BML')**

On 19 May 2008, the Group entered into a 50/50 joint venture agreement with Ardila Investments NV ('Ardila Investments') to form the joint venture BML. BML owns, amongst other immaterial subsidiaries, 100% of Bahia Mineração Limitada a company involved in development of an iron ore deposit in Brazil, for a consideration of US\$306 million.

The Group accounted for its investment in BML using equity accounting in accordance with the Group's accounting policy. In the period since acquisition, the movement in the Group's investment in the joint venture is as follows:

In millions of US\$	2008
Acquisition of joint venture	306
Costs directly attributable to acquisition of joint venture	17
Share of loss	(12)
Share of movement in translation reserve	2
<b>Total investments in joint venture</b>	<b>313</b>

The feasibility study is currently being undertaken and is expected to be completed in Q3 2009.

On 19 May 2008, the Group entered into a Shareholder Loan Agreement with BML to finance capital and operating expenditure. Under this agreement, the Group loaned US\$34 million to BML to match loans granted by Ardila Investments prior to the joint venture being established.

The Shareholder Loan Agreement provides a further loan facility to BML of which the drawn down amount at 31 December 2008 is US\$11 million.

Both loans are reported as related party loans and are interest free at 31 December 2008. The loans are repayable out of the profits and or the free cash flows of BML and in any event on the date falling nine years after the date of the Shareholder Loan Agreement.

On 19 May 2008, the Group provided a secured loan facility of up to US\$400 million to Ardila Investments to finance their share of certain capital and operating expenditure of BML. The facility, which is secured by Ardila Investments' shares in BML, is available to 31 December 2009, bears interest at LIBOR plus 4.5% per annum and is repayable over the 3 years following the first draw down under the facility (August 2008). As at 31 December 2008, US\$11 million has been drawn down against this facility and is reported as loans receivable from third party.

### **13. SHARE-BASED PAYMENTS**

In 2008 the Group made awards under the ENRC PLC Long Term Incentive Plan ('LTIP') to the Executive Directors and selected senior management. The LTIP awards vest on the third anniversary of the award date subject to achievement of performance targets. The performance target is based on the Group's total shareholder return ('TSR'), ranked against a comparator group of 22 international mining companies over a three year period from 1 January 2008 to 31 December 2010. As at 31 December 2008, the Group had expensed US\$3 million for the LTIP.

## 14. RECONCILIATION OF NON-GAAP MEASURES

In millions of US\$	Year ended 31 December	
	2008	2007
<b>Profit for the period</b>	<b>2,684</b>	814
<b>Add:</b>		
Depreciation and amortisation	311	303
Net losses on derivatives not qualifying for hedge accounting	-	32
Costs incurred in relation to the initial public offering ('IPO')	-	182
Finance costs, including foreign exchange currency loss on external and inter-company debt, cash and cash equivalents and term deposits	143	177
Share of loss on joint ventures	12	-
Income tax expense	1,143	507
<b>Less:</b>		
Finance income including foreign exchange currency gain on external and inter-company debt, cash and cash equivalents and term deposits	(132)	(97)
<b>Underlying EBITDA<sup>2</sup></b>	<b>4,161</b>	1,918
<b>Divide by:</b>		
Revenue	6,823	4,106
<b>Underlying EBITDA margin</b>	<b>61.0%</b>	46.7%
<b>Profit for the period</b>	<b>2,684</b>	814
<b>Add:</b>		
Net losses on derivatives not qualifying for hedge accounting	-	32
Costs incurred in relation to the initial public offering ('IPO')	-	182
Finance costs, including foreign exchange currency loss on external and inter-company debt, cash and cash equivalents and term deposits	143	177
Share of loss of joint ventures	12	-
Income tax expense	1,143	507
<b>Less:</b>		
Finance income	(132)	(97)
<b>Underlying EBIT</b>	<b>3,850</b>	1,615
<b>Divide by:</b>		
<b>Capital employed weighted average<sup>1</sup></b>		
Borrowings	1,019	1,393
Equity including minority interest	7,088	2,614
<b>Return on capital employed</b>	<b>47.5%</b>	40.3%

<sup>1</sup> The capital employed used in this calculation is a three point average based on the opening and closing balance sheet for each year plus the half-year interim balance sheet

<sup>2</sup> Incremental underlying EBITDA contribution from Serov and the new aluminium smelter amounted to US\$199 million and US\$76 million, respectively.

In millions of US\$	Year ended 31 December	
	2008	2007
<b>Revenue</b>	<b>6,823</b>	4,106
<b>Less:</b>		
Serov revenue <sup>3</sup>	(496)	(3)
Tuoli revenue	(6)	-
Other entities acquired or set up in 2008	(1)	-
New aluminium smelter sales revenue	(280)	-
<b>Like-for-like revenue</b> 2008 vs. 2007	<b>6,040</b>	4,103
Increase in like-for-like revenue	<b>1,937</b>	
<b>% increase in like-for-like revenue</b>	<b>47.2%</b>	
<b>Cost of sales</b>	<b>2,088</b>	1,701
<b>Less:</b>		
Serov cost of sales	(155)	-
Tuoli cost of sales	(11)	-
New aluminium smelter cost of sales	(103)	(3)
<b>Like-for-like cost of sales</b> 2008 vs. 2007	<b>1,819</b>	1,698
Increase in like-for-like cost of sales	<b>121</b>	
<b>% increase in like-for-like cost of sales</b>	<b>7.1%</b>	
Cost of sales	<b>2,088</b>	1,701
Distribution costs	<b>431</b>	373
Selling, general and administrative expenses	<b>422</b>	606
Net other operating expenses	<b>32</b>	5
<b>Total costs</b>	<b>2,973</b>	2,685
<b>Less:</b>		
Exceptional items <sup>4</sup>	-	(182)
Serov total costs	(186)	(2)
Tuoli total costs	(26)	-
Other entities acquired or set up in 2008	(1)	-
New aluminium smelter sales total costs	(140)	(19)
<b>Like-for-like total costs</b> 2008 vs. 2007	<b>2,620</b>	2,482
Increase in like-for-like total costs	<b>138</b>	
<b>% increase in like-for-like total costs</b>	<b>5.6%</b>	

<sup>3</sup> In 2007 DDK Trading AG was acting as a trading agent for sales of Serov's ferroalloys and therefore excluded from 2007.

<sup>4</sup> Exceptional items for the year ended 31 December 2007 represented costs expensed in relation to the Initial Public Offering and consisted of staff costs, professional and other services.

In millions of US\$	Year ended 31 December	
	2008	2007
<b>Cost of sales – principal operating divisions*</b>	<b>2,229</b>	1,684
<b>Less:</b>		
Serov cost of sales	(155)	-
Tuoli cost of sales	(11)	-
New aluminium smelter cost of sales	(103)	(3)
<b>Like-for-like cost of sales – principal operating divisions 2008 vs. 2007</b>	<b>1,960</b>	1,681
Increase in like-for-like total cost of sales - principal businesses	<b>279</b>	
<b>% increase in like-for-like total cost of sales – principal businesses</b>	<b>16.6%</b>	

\*The principal operating divisions comprise of Ferroalloys, Iron Ore, Alumina and Aluminium and Energy.

<b>Gross available funds</b>		
Cash and cash equivalents	<b>2,493</b>	2,548
Term deposits	<b>194</b>	203
Financial assets	<b>81</b>	170
<b>Total gross available funds</b>	<b>2,768</b>	2,921
Borrowings – current	<b>(372)</b>	(1,065)
Borrowings – non-current	<b>(355)</b>	(359)
<b>Total net available funds</b>	<b>2,041</b>	1,497

<b>Net cash</b>		
Cash and cash equivalents	<b>2,493</b>	2,548
Borrowings – current	<b>(372)</b>	(1,065)
Borrowings – non-current	<b>(355)</b>	(359)
<b>Total net cash</b>	<b>1,766</b>	1,124

## **15. EVENTS AFTER THE BALANCE SHEET DATE**

### **Acquisition of 100% of ENRC PMZ LLP**

On 8 January 2009 the Group acquired a 100% interest in ENRC PMZ LLP ('ENRC PMZ'), an unlisted company based in Kazakhstan, for a cash consideration of US\$20 million. ENRC PMZ owns 100% interest in Pavlodar Machinery Plant JSC, a producer of overhead factory cranes in Kazakhstan. ENRC PMZ was acquired from the Founder Shareholders of ENRC.

### **Purchase of an option to acquire 70% interest in Masalskoe GOK LLP**

On 8 January 2009 the Group purchased an option, for a cash consideration of US\$10 million, from a company owned by Mr Abdraman Yedilbayev, one of the Group's non-executive directors, to acquire a 70% interest ('Offered Interest') in Masalskoe GOK LLP ('Masalskoe'). Masalskoe is a company with the rights for exploration and production of iron ore of the Masalskoe deposit in Kazakhstan.

Consideration paid for the option will be used by Masalskoe to finance its exploration works during the 8 months from the date of payment. Upon completion of this period, the Group will be provided with the exploration results and may exercise the call option at any time during the 4 month period from the completion of exploration works and provision of all documents supporting the exploration results. The price payable on the exercise of the call option is US\$100 million. The purchase price is subject to change should the results of exploration works reveal that the available reserves deviate by more than 10 percent from the amount stipulated in the contract. If the parties disagree with the results of a new appraisal conducted by an independent expert, either of them may refuse to complete the sale of the Offered Interest. In such an event, the US\$10 million is not refundable, however, the Group shall instead receive an interest in Masalskoe equivalent to the share of US\$10 million in the value of the Offered Interest.

### **Acquisition of 25% of Shubarkol Komir Joint Stock Company**

On 16 February 2009 the Group acquired a 25% interest in Shubarkol Komir JSC ('Shubarkol'), a major semi-coke and thermal coal producer in Kazakhstan, for a cash consideration of US\$200 million.

Shubarkol is majority owned by Eurasian Finance-Industrial Company JSC ('EFIC'), a private company wholly owned by the three Founder Shareholders of ENRC who together hold 43.77% of the Group's issued share capital. The acquisition constitutes a 'smaller related party transaction' for the purposes of the Listing Rules of the FSA.

In connection with the acquisition, the Group has entered into an off-take agreement with Shubarkol, secured a seat on Shubarkol's Board and entered into a shareholders agreement with EFIC. In addition the Group has a right of first refusal, combined with a call option, over all or part of the remaining shares in Shubarkol held by EFIC. The call option is exercisable (at the Group's discretion) at any time until 31 January 2011 and is expected to be subject to the approval of the Group's shareholders with any required regulatory approvals having been obtained. The price payable on any exercise of the call option is the aggregate value of the shares to be transferred, assuming Shubarkol has a total value of US\$800 million on a fully diluted basis, less any net debt at the time of the transfer. The Group's management believes that the transaction, agreed on an arm's length basis, creates value for all of the Group's shareholders.

The 25% interest in Shubarkol was acquired through a public auction process on the Kazakhstan Stock Exchange ('KASE'). The settlement of the shares through KASE was completed on 19 February 2009.

### **Devaluation of Kazakhstani tenge**

At the beginning of February 2009 the Kazakhstani tenge was devalued by about 25 percent to approximately KZT150/US\$1. A substantial proportion of the Group's costs are in tenge.

**Buy Out of Serov minority interest**

In January and March 2009 the Group completed a buy out of minority interest in Serov Ferrochrome Factory and Saranovskaya Mine 'Rudnaya' for a cash consideration of US\$4 million and US\$5 million, respectively. As a result, the Group's interest in Serov Ferrochrome Factory and Saranovskaya Mine 'Rudnaya' increased to 99.29% and 98.77%, respectively.

**2008 Dividend**

For 2008 the Board has recommended a final dividend of 19 US cents per share amounting to US\$245 million, which will be paid on Wednesday, 17 June 2009, to shareholders on the register at the close of business on 3 April 2009.

## SHAREHOLDER INFORMATION

### Registered Offices

Eurasian Natural Resources Corporation PLC  
16 St James's Street  
London SW1A 1ER  
United Kingdom

Telephone: +44 (0) 20 7389 1440

Fax: +44 (0) 20 7389 1441

Website: www.enrc.com

Registered in England and Wales

Company number: 06023510

### Listing

The principal trading market for Eurasian Natural Resources Corporation PLC Ordinary Shares is the London Stock Exchange ('LSE'). The shares are also listed on the Kazakhstan Stock Exchange ('KASE').

### Major interests in shares

As at 24 March, 2009, the Company had been advised, in accordance with the Disclosure and Transparency Rules of the FSA, of the following notifiable interests (whether directly or indirectly held) in its voting rights:

	Number of voting rights	%
Kazakhmys PLC together with Kazakhmys Eurasia BV	334,824,860	26.00
Mr Patokh Chodiev	187,836,250	14.59
Mr Alijan Ibragimov	187,836,250	14.59
Mr Alexander Machkevitch	187,836,250	14.59
The State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan	150,047,116	11.65

### Exchange rates

The following table sets out, for the periods indicated, the relevant period-end and average exchange rates of the Kazakhstani tenge (KZT) to the US dollar (US\$), as applied in the preparation of the Group's consolidated financial information for the relevant periods and expressed in KZT per US dollar.

	Rate	
	Period end	Average
Year ended 31 December 2008	120.77	120.30
Year ended 31 December 2007	120.30	122.55
Year ended 31 December 2006	127.00	126.09

## Results timetable

Wednesday, 1 April 2009	Ex-dividend date
Friday, 3 April 2009	Final dividend record date
Wednesday, 13 May 2009	2009 First-half Interim Management Statement and 2009 Q1 Production Report
Wednesday, 10 June 2009	Annual General Meeting
Wednesday, 17 June 2009	Final dividend payment date
Wednesday, 5 August 2009	2009 Q2 Production Report
Wednesday, 19 August 2009	2009 Half-year Results Announcement
Wednesday, 11 November 2009	2009 Second-half Interim Management Statement and 2009 Q3 Production Report
Wednesday, 3 February 2010	2009 Q4 Production Report
Wednesday, 24 March 2010	2009 Preliminary Results Announcement.

All future dates are provisional and subject to change.

## Dividends on ordinary shares

On 19 November 2008 the Company paid an interim dividend for the six months ended 30 June 2008 of 12 US cents per ordinary share.

The Directors recommend a final dividend for the year ended 31 December 2008 of 19 US cents per ordinary share in the Company. If the recommended final dividend is approved at the Annual General Meeting, to be held on Wednesday, 10 June 2009, this will be paid on Wednesday, 17 June 2009 to all registered shareholders on the Register of Members at close of business on 3 April 2009.

As the Group's financial results are reported in US dollars, the dividend will be declared and paid in US dollars. However, registered shareholders may elect to receive their dividend in British pounds instead. This will be based on an exchange rate of US\$1.4496/£1 (being the rate published in the London *Financial Times* on 24 March 2009, the business day prior to announcement of the Company's Preliminary Results for the year ended 31 December 2008).

Registered shareholders will be sent a currency election form on or about 26 March 2009. If they wish to receive the final dividend in British pounds, they should complete and return the currency election form, in accordance with its terms, to Company's Registrar so that it is received by the Registrar no later than 17:00 BST (London time) on 9 April 2009. Further copies of the currency election form may be obtained from the Registrar.

In the absence of further changes to the default payment currency, the Company does not propose sending further dividend mailings to registered shareholders. If shareholders wish to change their currency elections in the future, they should contact the Company's Registrar in advance of the dividend announcement date.