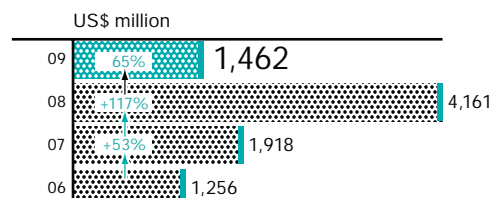


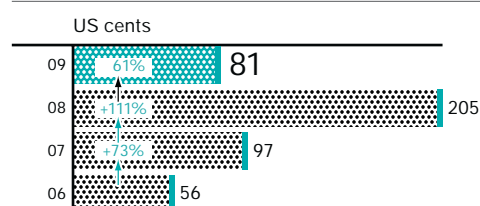
Key Performance Indicators

Underlying EBITDA



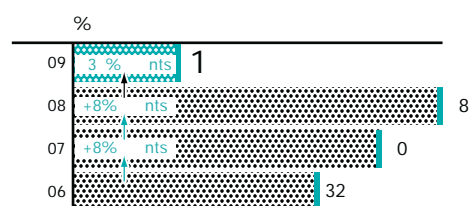
This is a measure of the underlying profitability of the business. In 2009 underlying EBITDA reduced sharply mostly due to significant falls in commodity prices from some record highs in 2008.

EPS (before exceptional items)



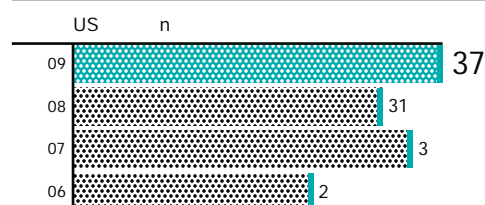
EPS tells us how much attributable profit per share is available for distribution to shareholders through dividends. Despite the impact of the economic downturn we were able to achieve an EPS which enabled us to maintain our dividend policy.

Return on Capital Employed (ROCE) (before exceptional items)



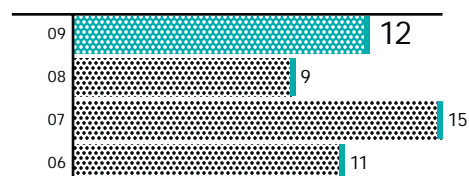
ROCE measures how efficiently the Group's capital is being used. Our 2009 ROCE was impacted by a combination of lower profits and our continuing significant capital investment programme which will deliver financial benefits in the long term.

Community Social Investment

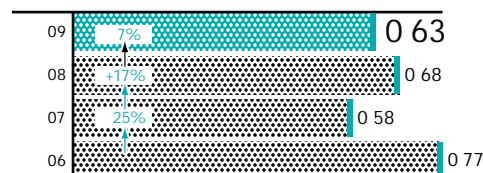


Our business is long term with operations often in remote areas where we are the principal employer. We recognise the key economic and social responsibilities that we have as a result. We have increased our community social investment despite the general economic pressures experienced by industry and the Group. This continued investment is part of our sustainable business model.

Safety Fatalities



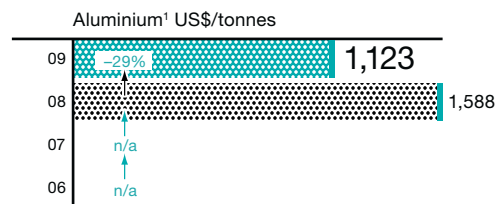
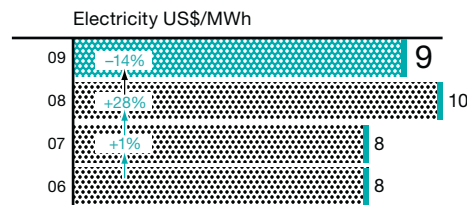
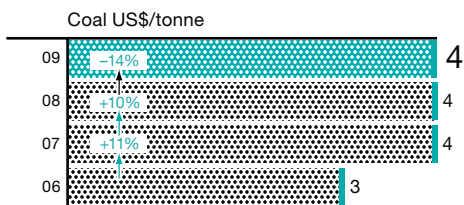
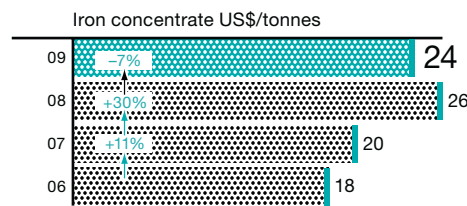
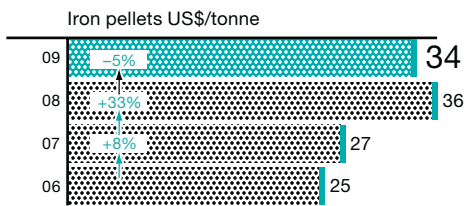
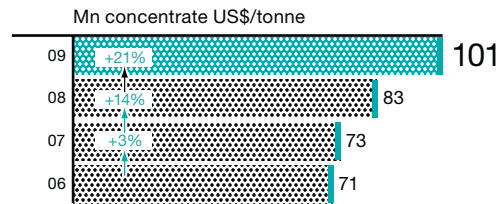
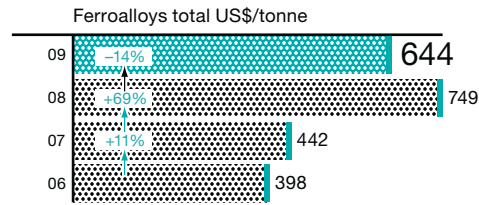
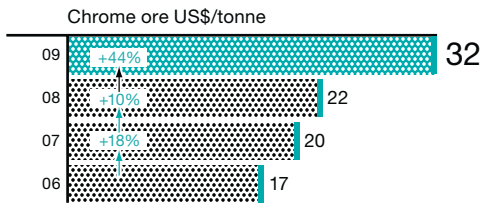
We recognise that we operate in a dangerous industry but we aspire to a target of zero work related injuries. Despite the Group's endeavours in 2009, the number of fatalities regrettably increased. Many of the changes to work practices we are introducing require commitment over the long term and we have increased the accountability of senior management to ensure that focus on this important area is maintained.



In 2008 we started to implement a new safety management system, which has improved the quality and coverage of our reporting. In 2009 the Group launched a safety culture improvement project, and had some success in reducing the incidence of injuries. We anticipate further improvements as it is rolled out in full throughout 2010.

Product costs

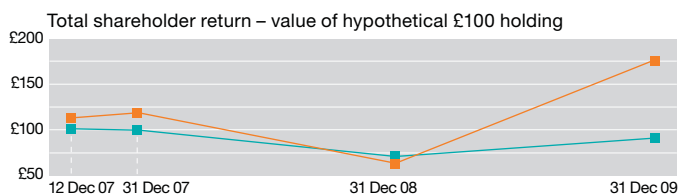
During 2009, cost reductions were achieved across most of our products due to the success of anti-crisis measures along with the effects of the Kazakhstani tenge devaluation against the US dollar. This achievement was in spite of the impact of the introduction of MET and domestic inflationary pressures. Savings were made in input material prices as well as lower labour and repairs and maintenance costs in comparison to 2008 (refer to the Financial Review on pages 29 to 35). With full capacity restored across the Kazakhstani business, management anticipate some erosion of the absolute cost position in 2010 as raw material and other input costs are rising at around the local level of inflation, whilst there is also the potential negative impact of Kazakhstani tenge appreciation. We do however expect to retain our relative low cost advantage.



1 Aluminium is an integrated business. The unit cost KPI excludes any in-house margin from other Group companies that would be included in the costs on a stand-alone basis.

Total shareholder return ('TSR')

The graph charts the total shareholder return of ENRC compared with the FTSE 100 since 12 December 2007 (being the first date of trading for ENRC shares). The Company has a long-term incentive plan for Executive Directors, management and senior employees that is based on TSR. Hence the goals and rewards are aligned for management and shareholders.



Source: Bloomberg

Note: TSR based on end of year prices, shown since ENRC's listing on 12 December 2007

Risk Management

Introduction

The Board is responsible for the Group's systems of Risk Management and Internal Control and for reviewing their effectiveness in operation. Further details are presented in the Corporate Governance Report on pages 48 to 50.

Effective systems of Internal Control:

- play a key role in the management of risks that are significant to the fulfilment of the Group's business objectives;
- contribute to safeguarding the shareholders' interests and the Group's assets;
- facilitate the effectiveness and efficiency of operations;
- help ensure the reliability of internal and external reporting; and
- assist compliance with laws and regulations.

Key business risks and the responses by executive management

This section sets out the key business risks being faced by the Group. Key business risks are those risks which have a high overall impact and likelihood risk rating in terms of the potential to adversely affect the Group's ability to achieve its objectives. This section also includes a description of the ways in which executive management have responded to these risks.

Risks to the achievement of strategic objectives

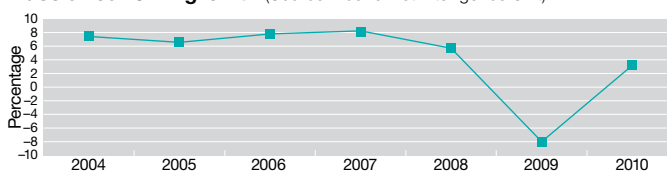
Slowdown in the growth of the economies of key customers

The Group's sales of products from some divisions continue to be predominantly to customers based in Russia and China, as set out in the table below.

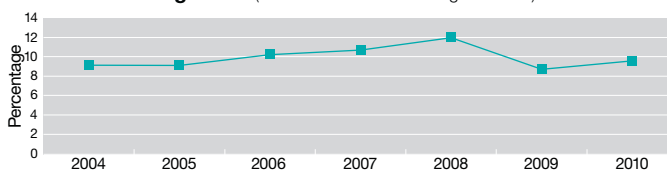
Percentage of Divisional Sales Revenue

	Russia		China	
	Years ended 31 December 2009	Years ended 31 December 2008	Years ended 31 December 2009	Years ended 31 December 2008
Ferroalloys	17.3	20.4	29.3	11.2
Iron Ore	52.7	64.0	44.4	29.1
Alumina and Aluminium	64.0	62.4	–	–

Russia real GDP growth (Source: Economist Intelligence Unit)



China real GDP growth (Source: Economist Intelligence Unit)



The GDP of the Russian economy contracted by about 8% in 2009 as a whole but grew in the last two quarters of the year. In 2010 growth is expected to be around 3%. The Chinese economy sustained a high rate of GDP growth in 2009 of almost 9%. A number of forecasters believe that broadly this level of growth can be maintained for the medium term.

The significant slowdown in the global economy as a whole and the consequential impact on the export-led growth of the economies

with which the Group trades brought about a decrease in demand for the Group's products and also created downward pressure on sales prices. The Group, however, was able to leverage its geographic proximity to the growth market of China and in so doing mitigate the impact of the economic global slowdown as can be seen in the preceding table which shows an increased proportion of sales to China in 2009. Market conditions progressively improved throughout 2009 and are now much better than those experienced at the beginning of the year.

Our confidence in the outlook for ENRC in 2010 is considerably stronger in relation to both the sustainability of growth in Chinese domestic demand, and to the growth prospects of the mature economies of Japan, Europe and the USA. We believe that there will continue to be commodity price volatility as a result of high levels of economic uncertainty and concern about the overall speed of global recovery. The medium to longer term fundamentals for commodities remain strong and the outlook is for China and the emerging economies to be the leaders on the road to sustainable recovery.

Response to the slowdown in the growth of the economies of key customers

Management responded rapidly and decisively to the severe reduction in demand for the Group's products in late 2008 and early 2009 by:

- cutting ferroalloys, iron ore and energy production to match customer demand;
- reducing inventories and actively concentrating on receivables;
- re-evaluating capital expenditure; and
- focusing on the control of costs in the face of significant pressure on product prices.

Progressively during 2009 management was able to advance production levels across those businesses and by the end of 2009 production had been restored to approximately full available capacity.

We remain positive on the medium- and long-term growth prospects for the metal-intensive and export growth of the Chinese and Russian economies, with the particular benefit to ENRC of its strategic location. In addition there is significant sustained growth in the demand for industrial metals elsewhere in the industrialising world which, as with China and Russia, is based on their demographics, urbanisation and infrastructure requirements. The prospects for ENRC in all of these markets are enhanced by structural capacity shortages, notably in China, and supply constraints that are expected to emerge with a global economic recovery. The Group, with its tier one assets and the advantage of low cost production, is well positioned to seize opportunities in China and Russia and elsewhere in the world whilst benefiting from the progressive improvement in the stability of its long-term contract customer base.

Country risks

The Group's businesses could be adversely affected by any new regulations which are introduced by the Governments of the key countries in which the Group operates and trades, such as:

- controls on imports, exports and sales prices;
- terms of mining and other licences;
- restrictions on foreign ownership of assets;
- restrictions on the remittance of funds; and
- new forms or rates of taxation, duties and royalties.

These risks are most relevant in relation to Kazakhstan, which continues to be the Group's principal country of operation, but also, to a lesser extent, Russia, China and the DRC.

In addition, any increased requirements relating to regulatory, environmental and social approvals, in countries in which the Group has mining or production activities, could result in significant delays in the construction of new investment projects, and may adversely impact the economics of those projects, the expansion of existing operations and the financial results of the Group's operations.

Response to country risks

Senior management of the Group's operations in Kazakhstan are engaged in an active dialogue with the Government of the Republic of Kazakhstan and with local authorities in many regions and towns within Kazakhstan, as well as directly with the Group's workforce, to fully reflect the Group's responsibilities to these stakeholders.

The Government of the Republic of Kazakhstan is also a significant shareholder in the Group and two representatives of the Government are non-executive Directors and attend Board meetings.

Through these different types of engagement with the Government of the Republic of Kazakhstan the Group is able to anticipate likely changes in regulations and to put in place plans to respond to changes whenever they may arise.

In DRC the management of the Group's businesses have met with key Government officials at both national and regional level, including those responsible for mining. Management plan to establish effective working relationships with these officials and keep them informed about our plans for investment and for the development of the businesses. These relationships are going to be based on a mutual desire to improve the economy of the countries whilst at the same time developing the natural resources opportunities which are available in the areas to the benefit of the local communities and the Group.

Integration of acquired businesses

Some of our future growth will stem from acquisitions. There are numerous risks which may be encountered in business combinations, and we may not be able to successfully integrate acquired businesses which could negatively impact our financial condition and results of operations.

Response to risks in the integration of acquired businesses

The Group has formed a Mergers and Acquisitions Committee, which is a sub-committee of the Board, to oversee all acquisition activity including the agreement of acquisition targets, setting policies for due diligence activity and overseeing the process of due diligence, acquisition and subsequent integration into the Group. The committee has received delegated authority from the Board to finalise and execute acquisitions following Board approval. The committee is chaired by an independent non-executive Director and includes two other non-executive members of the Board.

The Group also increased the number, seniority and experience of the in-house mergers and acquisitions team during 2009 and continues to employ external advice to supplement the in-house expertise. A strategic projects finance team has also been established in London. For each acquisition which the Group has made and for all prospective acquisitions a member of the Group's senior management team is appointed to take responsibility for the integration of the acquired business.

The Group has gained valuable experience in the acquisition and ongoing integration of CAMEC and this will be applied to all future acquisitions, including Chambishi. Many of the management team involved in the ongoing CAMEC integration will also be responsible for the delivery of the Chambishi integration plan.

Risk Management continued

CAMEC acquisition

The Group acquired CAMEC in November 2009. CAMEC operates principally in the DRC, where it mines copper and cobalt and processes the ore in a company in which the State owned Gécamines is a minority 30% partner.

The assimilation and integration of acquired businesses requires significant time and effort on the part of the Group's senior management. Integration of new businesses, particularly in emerging markets, can be difficult, and potential problems may include, but would not be limited to:

- Compliance with local and international regulations;
- Harmonisation of corporate culture differences;
- Alignment of HR policies and remuneration bases;
- Operating in a new geographical environment and in new commodity markets;
- Roll-out of financial reporting procedures and unification of accounting policies;
- Controlling acquired assets; and
- Dealing with legacy issues.

Response to risks in the integration and management of the CAMEC businesses

The Group has engaged a Chief Executive Officer for ENRC in Africa, with extensive experience of mining in Africa, to manage the integration of Camec. He is being supported by a senior member of the Group's Mergers and Acquisitions team who was involved in the due diligence process prior to acquisition.

Human resource talent pool

The Group's growth and future success depend significantly upon its continued ability to attract, retain and motivate employees and key members of management and to adequately resource a wide range of development projects. Failure to adequately maintain the quality of the Group's Human Resource pool could have an adverse impact on those projects or on existing operations. Despite the recent volatility in commodity prices and consequential impact on growth prospects in the industry there still exists an increasing demand for skilled personnel and contractors across a range of disciplines.

Response to human resource talent pool risks

We have continued to provide stimulating and challenging opportunities for all employees and this is attractive for both existing and prospective employees. The Group is committed to the recruitment of experienced staff across the Group, in London, Africa, Kazakhstan and in other countries in which the Group operates. In Kazakhstan the Group has developed a Succession Planning policy, a Talent Management Programme as well as planning to develop a Corporate Health Management Roadmap in 2010. Further details of the Group's commitment to the welfare, health and personal development of its employees is set out in detail in the Sustainability Review on pages 36 to 40.

Capital projects

The Group's mining operations are capital intensive. The development and exploitation of mineral reserves and the acquisition of machinery and equipment require substantial capital expenditure. Capital projects are subject to a number of risks:

- the project, whilst meeting the Group's hurdle rate for investment, may not be the most appropriate way to increase shareholder value;
- the assumptions about future commodity prices, on which the economic case for the investment was based, may prove to be too optimistic;
- planned funding for the project may not be available when required;

- the resources required to complete the project may not be available in the right volume or at the right quality or price;
- the implementation of the project may prove to be more complex or technically difficult than originally envisaged and, in extreme cases, may not be possible to complete; and
- the project may be completed but may be delivered late and/or at a significantly higher cost than planned.

Response to capital project risks

The Group has adopted policies and procedures which need to be applied before a capital project may obtain approval to proceed. In particular the technical and economic aspects of each significant project are subject to a detailed feasibility review and those projects that pass this review are then subject to further assessment by management.

All existing projects are subject to scrutiny by management at a quarterly review meeting to ensure that the bases and assumptions, on which the project was originally approved, continue to hold. The Group has recently re-evaluated both expansionary and sustaining projects, as described in the section on Capital Expenditure on pages 34 to 35.

The Group has engaged external advisors to assist in the development of an effective investment appraisal methodology which will include a systematic way of assessing the potential future value of each proposed project against alternative uses of the funding.

Risks to the achievement of operational objectives

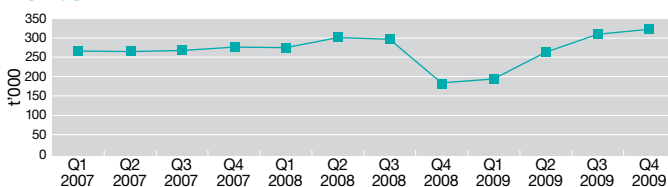
Maintaining cost competitiveness

Information on the unit costs of the Group's divisions in the years ended 31 December 2008 and 2009 is set out in the Financial Review on pages 29 to 35.

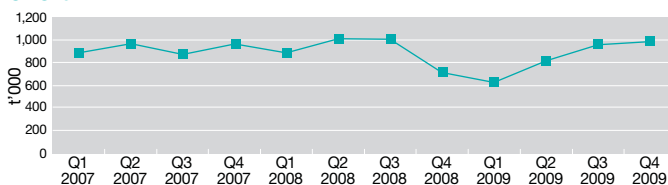
In Q4 2008 the Group significantly reduced production volumes, notably in the Ferroalloys and Iron Ore Divisions, to a level which was consistent with expectations of sales. Capacity utilisation was progressively restored through 2009. By Q4 2009, production volumes in the Ferroalloys and Iron Ore Divisions in Kazakhstan had been restored to effectively full available capacity.

Quarterly movements in production volumes in 2008/09

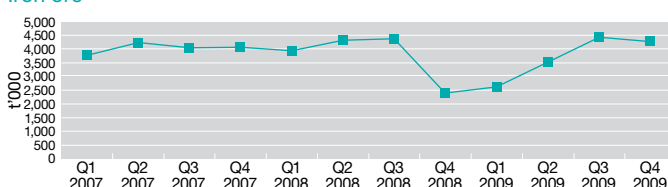
HC FeCr



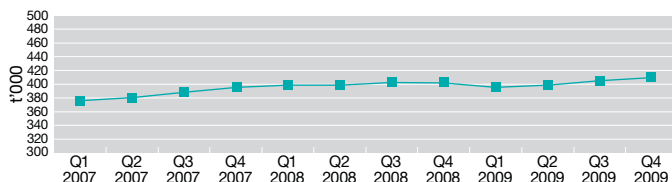
Cr Ore



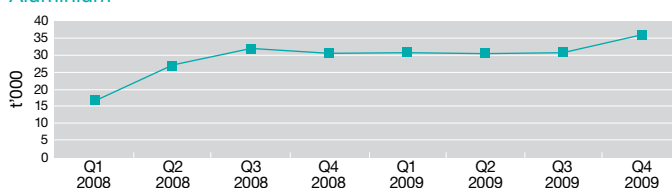
Iron ore



Alumina



Aluminium



These changes in production volumes led, in the early parts of 2009, to increased operating costs per tonne of product at existing operations, as well as impacting the costs and schedules of investment projects.

Whilst reduced production volumes during 2008 and 2009 were a specific risk to the Group's ability to operate a cost competitive business there continue to be other operational risks to the Group's ability to maintain its cost advantage over competitors.

The Group acquires a significant amount of goods and services from suppliers, contractors and other third parties for operational and capital expenditure purposes. In making these acquisitions the Group has the risk that goods or services may not be acquired on the most economical terms from suppliers and contractors.

Response to the risk of maintaining cost competitiveness

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

During 2009 the Group experienced a reduction in raw material input costs and many other costs of production and distribution, part of which related to the approximately 25% devaluation of the tenge against the US dollar in February 2009. In addition the Group entered into constructive discussions with employees to avoid compulsory redundancies but offset this by securing agreements on greater labour flexibility in terms of reduced working hours and lower levels of remuneration. As production returned to near-capacity levels, employment conditions were restored to pre-crisis levels.

During 2009 domestic consumer price inflation ('CPI') in Kazakhstan was 6.2%. Whilst the Group's businesses remain relatively low cost, cost control, and thus competitiveness, continues to be an area of great importance for the Group and one which will continue to be the subject of significant management focus throughout 2010.

The Audit Committee have formally approved a manual of Group Procurement policies which formalise earlier locally developed Policy Documents and control procedures to mitigate the risk of uneconomic procurement. These policies and procedures were rolled out to relevant employees in Kazakhstan and Russia during 2009 and will be rolled out in Africa in 2010.

In addition the Group engaged Boston Consulting Group during 2009 to carry out a wide ranging review of the Group's procurement procedures and to make recommendations for improvements. These recommendations, and a re-emphasis of the need to improve management's monitoring of compliance with the implementation of the Group Procurement procedures, will be the subject of training workshops in Kazakhstan during 2010.

Unexpected natural and operational catastrophes

Our operational processes and locations may be subject to operational accidents. Our operations may also be subject to unexpected natural catastrophes such as earthquakes and flooding. Existing insurance arrangements may not provide cover for all of the costs that may arise from such events. The impact of these events could lead to disruptions in production and loss of facilities adversely affecting our financial results.

Response to the risk of unexpected natural and operational catastrophes

We commissioned external consultants to complete a detailed review of the adequacy of the Group's insurance cover in Kazakhstan in terms of the value of insurable assets and also to undertake risk surveys of our Kazakhstani operations and advise on the implementation of more effective contingency plans to mitigate the potential impact of these risks.

In August 2009 the Group improved the insurance coverage and policy limits of the Group's Kazakhstani assets, in advance of the receipt of the reports from the external consultants. In March 2010 the Group implemented a new insurance programme based on significantly enhanced assets values, coverage and terms.

During 2010 the Group's operations will respond to the recommendations made by consultants in the risk surveys and the terms of the new insurance programme will be extended to the Group's operations outside Kazakhstan.

Risks to the achievement of compliance objectives

The Group is subject to laws and regulations in all the jurisdictions in which it operates and is committed to ensuring effective compliance with all its obligations; further details on the Group's approach to compliance is set out in the Corporate Governance section on pages 41 to 56.

Health, safety, environmental exposure and regulations

The nature of the industry in which we operate means our activities are highly regulated by health, safety and environmental laws. As regulatory standards and expectations are constantly developing, we may be exposed to increased compliance costs and unforeseen environmental remediation expenses.

Response to risks related to health, safety, environmental exposure and regulations

This is covered in the Sustainability Review which is set out on pages 36 to 40.

Taxation

The Group is subject to taxation in the jurisdictions in which it operates. There are inherent risks associated with the complexities of tax laws and regulations, potential differences in interpretation of the applicable legislation and continuous changes to tax laws and regimes. Cross border transactions also represent inherent risks as a result of being subject to different national tax rules which are not necessarily harmonised. An example of such inherent risk exposure is cross-border inter company transfer pricing.

Risk Management continued

Response to taxation risks

The Group management is committed to ensuring compliance with the tax requirements in every jurisdiction in which the Group operates and to both minimising and managing risks associated with taxation. The Group is also committed to building and maintaining good and constructive working relationships with the tax authorities in all countries in which the Group is subject to taxation.

In order to facilitate this approach the Group is developing its in-house team and seeking the advice of independent external consultants in complex and specialist areas.

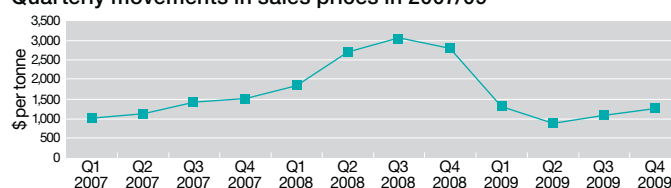
Risks to the achievement of financial objectives

Commodity prices

Commodity

HC FeCr

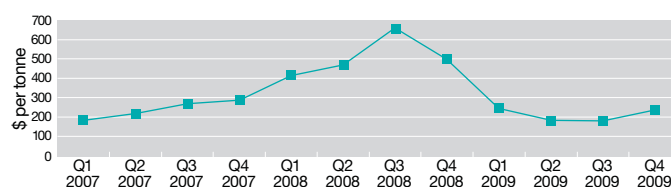
Quarterly movements in sales prices in 2007/09



US\$ impact

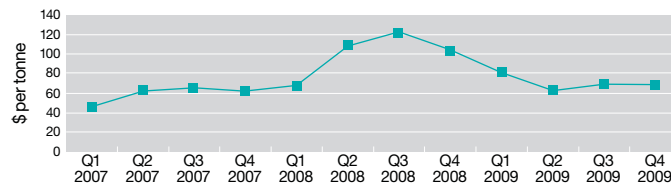
5% reduction in sales price, relative to the average price of US\$1,134 for 2009, would reduce underlying EBITDA by US\$55 million

Cr ore



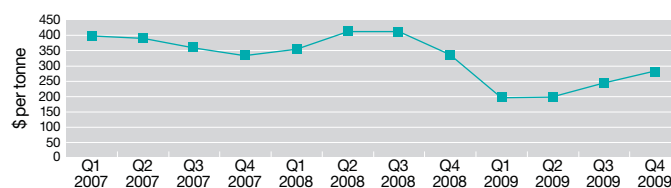
5% reduction in sales price, relative to the average price of US\$216 for 2009, would reduce underlying EBITDA by US\$6 million

Iron ore



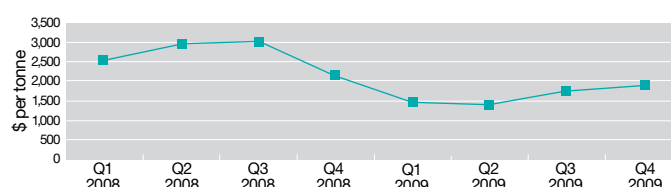
5% reduction in sales price, relative to the average price of US\$71 for 2009, would reduce underlying EBITDA by US\$53 million

Alumina



5% reduction in sales price, relative to the average price of US\$231 for 2009, would reduce underlying EBITDA by US\$16 million

Aluminium



5% reduction in sales price, relative to the average price of US\$1,626 for 2009, would reduce underlying EBITDA by US\$10 million

The Group generates most of its revenue from the sale of commodities, primarily ferrochrome, chrome ore, iron ore, alumina and aluminium. From November 2009 the Group will also generate revenue from sales of copper and cobalt as a result of the acquisition of CAMEC and Chambishi.

Historically, the prices for these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicity in industries that purchase these products. This was particularly evident in the last quarter of 2008 and first quarter of 2009 when prices fell substantially. At the peak price in mid 2008 HC FeCr was selling at a benchmark price of US\$2.04 per lb of chrome but then fell as low as US\$0.69 per lb of chrome in the second quarter of 2009 before recovering to US\$1.03 per lb of chrome in the fourth quarter of 2009.

These external factors and the volatility of the commodity markets 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. However, the cost base of the ferroalloy industry has systematically increased as a result of increased energy and reductant costs whilst also suffering from the impact of currency appreciation. This has meant that the Group, due to its low cost base and integrated structure, is in an advantageous position relative to its peers.

Response to commodity price risks

The Group monitors market prices, global sales volumes and internal levels of inventory of key commodities to help inform production and sales planning decisions and avoid surplus inventory.

The management of the Sales and Marketing business produce regular forecasts of the 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 on a regular basis in order to optimise revenue and meet customer needs.

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

Credit default of 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. At the same time the Group's traditional markets for obtaining credit insurance have significantly reduced. With a high concentration of sales to a small number of customers in our main divisions this is a significant risk for us.

Response to the risk of a credit default by key customers

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

- maintain close relationships with all its key customers but also to develop new customer relationships in Russia, China and elsewhere to diversify customer default risk;
- obtain credit insurance, where insurance cover is available, or letters of credit against the risk of default by major customers;
- review credit limits and payment terms for all major customers; and
- regularly monitor compliance with these terms and report periodically to the Chief Financial Officer on any developments in the amounts receivable from customers and average days outstanding.

Financial counterparty default

At 31 December 2009 the amounts invested with financial institutions were US\$1,006 million. In making these investments the Group runs the risk that a counterparty may default on the repayment of the invested funds when they fall due.

A number of financial institutions have been in default since the start of the global financial crisis but the Group had no exposure to these institutions and has not made any losses from its dealings with financial counterparties.

Response to financial counterparty default risk

To minimise the risk of the default of a financial counterparty with which the Group has invested funds strict criteria for investment have been adopted and were approved by the Board in December 2008. Investments may only be made with counterparties which are included on our Permitted Investment list. Individual counterparty exposure limits are based on published credit ratings or where these are not available, by an internal assessment of the counterparty's financial strength.

On a regular basis the Group Treasury Committee reviews the credit ratings of all approved counterparties and may propose adjustments to the maximum credit limits. Any changes to credit limits require the approval of the Chief Financial Officer.

A consolidated counterparty exposure report is recalculated on a weekly basis and a monthly report is produced by the Group Treasurer for review by the Chief Financial Officer and is also included in the Treasury report for each Board meeting.

Foreign exchange rate exposure

The presentational currency of the Group is the US dollar and the majority of sales are US dollar denominated. However, significant costs which are incurred in Kazakhstan are denominated in the Kazakhstani tenge and the Group has operational exposures to other foreign currencies.

Response to foreign exchange rate risks

The Group considers the exposure to the Kazakhstani tenge to be an ongoing economic risk. Although there were hedges in place in 2009 that were transacted in 2007, the Group is not currently entering into new contracts to actively hedge this exposure. Management review economic exposures on a regular basis.

Operating Review

Overview

ENRC is a leading diversified natural resources group, performing integrated mining, processing, energy, logistics and marketing operations. The operations of the Group 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; the transportation and sales of the Group's products; and, the production of copper and cobalt. ENRC's production assets are largely located in the Republic of Kazakhstan; other assets, notably the Other Non-ferrous Division, are mainly located in Africa. In 2009, the Group accounted for approximately 3% of Kazakhstan's GDP. The Group currently sells the majority of its products to Russia, China, Japan, Western Europe and the United States. The Group's entities in 2009 employed approximately 70,300 (2008: 67,600) people. For the year ended 31 December 2009, the Group had revenue of US\$3,831 million (2008: US\$6,823 million) and profit attributable to equity shareholders of US\$1,045 million (2008: US\$2,642 million). ENRC has six key divisions: Ferroalloys, Iron Ore, Alumina and Aluminium, Energy, Logistics and Other Non-ferrous. ENRC is a UK company with its registered office in London. ENRC's shares are quoted on the London Stock Exchange ('LSE') and the Kazakhstan Stock Exchange ('KASE').

Production in the Ferroalloys Division was adversely affected by the much reduced demand for medium- and low-carbon ferrochrome and ferrosilicochrome and ferrosilicon. In contrast, high-carbon ferrochrome production in Kazakhstan remained broadly steady on 2008. Ferroalloys capacity utilisation at Kazchrome in 2009 was 83% (2008: 90%), rising to about 97% in Q4 2009 with only one furnace not in production at the year end. Serov was more affected in 2009 – as more capacity is committed to medium- and low-carbon ferrochrome – and had capacity utilisation of 51% for 2009 (Q2–Q4 2008: 79%). At the end of 2009 Serov had 11 (of 17) furnaces in operation, with a capacity utilisation in Q4 2009 of about 77%. Similarly, the higher cost Tuoli high-carbon ferrochrome facility remained closed until late Q2 2009 and capacity utilisation was 32% through 2009 (Q4 2008: 19%). At the end of 2009 three (of four) furnaces were in operation, with a capacity utilisation in Q4 2009 of about 75%.

Production of primary concentrate in the Iron Ore Division was broadly in line with 2008. Capacity utilisation in 2009 was 84% (2008: 86%). There was a switch in the production mix in H1 2009, as customer demand increased for the cheaper saleable concentrate product. In H2 2009 demand for pellet recovered and increased significantly with production more balanced in this period. In H2 2009 overall primary concentrate capacity utilisation for the Iron Ore Division was 99% (H1 2009: 70%).

Production in the Alumina and Aluminium Division increased, with the benefit of a build-up in production at the aluminium smelter, which attained its full Phase 1 run rate in Q2 2008, and with Phase 2 production partially initiated in late 2009.

The Energy Division saw increased coal production and much increased electricity generation. These particularly reflected the recovery in the Group's Kazakhstan-based production and greater third-party sales, and also increased power generation capacity being made available, having been taken off-line in late 2008 in response to the fall in demand.

Logistics Division shipments recovered progressively through the year to be broadly in line with 2008.

The Group also benefited from the first-time contribution of the Other Non-ferrous Division, formerly Central African Mining & Exploration Company PLC ('CAMEC'), in the last two months of 2009.

Description of ENRC's businesses

The Group has six (2008: 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. ENRC is the largest ferrochrome producer in the world by chrome content and the lowest cost producer of high-carbon ferrochrome. For the year ended 31 December 2009, the Ferroalloys Division had revenue of US\$1,871 million (2008: US\$4,151 million), which represented 48.8% (2008: 60.8%) of the Group's consolidated revenue.

The Ferroalloys Division is vertically integrated, having its own chrome ore and manganese ore mines feeding its ferroalloy production in Kazakhstan, Russia and China. In addition to 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.

Competitive position

In 2009 the Ferroalloys Division continued to have significant advantages over its major industry peers. Firstly, Kazakhstan – where the principal resource and production base is located – benefited from its proximity to China. Strong Chinese GDP growth in 2009, fuelled by the large stimulus package injected into the economy by the Chinese government, spurred demand from its stainless steel industry which grew by nearly 20% in 2009, partially compensating for the decline in the mature economies of Europe, the USA and Japan. The Ferroalloys Division also gained from its vertical integration, which enabled it to capture value from owning and operating its mines and processing plants, supported by an integrated Energy Division with its own energy resources and the Group's own logistics. The Division therefore continued to benefit from a secure and relatively low cost infrastructure, whilst many of its major peers saw energy costs increase considerably, particularly in South Africa. Kazakhstan ferrochrome is differentiated by its higher chrome content, typically about 69% as a function of the high quality ore, versus South African charge chrome with a chrome content of approximately 50% and higher silicon and iron contents. This limits the uses of charge chrome primarily to stainless steel smelting, against high-carbon ferrochrome which can be used universally for a wider range of alloy steels and castings produced in all types of furnaces. The ferrochrome quality of ENRC is more attractive to specialty steel producers as they prefer to limit trace elements, reduce the generation of slag and control the carbon content. This higher quality allows ENRC to maintain a more diverse customer base. Applications in the production of stainless steel, engineering and alloy steels, aerospace, foundry and powder metallurgy industries meant that ENRC was able to maintain comparatively high levels of capacity utilisation during 2009. The products used in these sectors include the full spectrum of high-, medium- and low-carbon ferrochrome, including sub speciality grades such as low-phosphorus, titanium and vanadium bearing ferrochrome.

Production summary

The following table sets out the production volumes for each of the Ferroalloys Division's principal saleable products (including Serov

from Q2 2008 and Tuoli from Q4 2008) for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Chrome Ore¹				
Run-of-Mine ore extraction	'000 t	4,377	4,331	1.1%
Processing of low grade stockpile	'000 t	–	1,437	n/a
Saleable ore production	'000 t	3,398	3,629	(6.4)%
Internal consumption of saleable ore	'000 t	2,468	2,594	(4.9)%
– percentage		72.6%	71.5%	
Manganese Ore				
Run-of-Mine ore extraction	'000 t	2,252	2,290	(1.7)%
Processing of low grade stockpile	'000 t	754	1,035	(27.2)%
Saleable ore production	'000 t	904	1,024	(11.7)%
Internal consumption of saleable ore	'000 t	344	307	12.1%
– percentage		38.1%	30.0%	
Iron-Manganese Ore				
Run-of-Mine ore extraction	'000 t	83	328	(74.7)%
Processing of low grade stockpile	'000 t	149	484	(69.2)%
Saleable ore production	'000 t	61	433	(85.9)%
Ferroalloys²				
Ferrochrome	'000 t	1,161	1,196	(2.9)%
– High-carbon ferrochrome	'000 t	1,073	1,054	1.8%
– Medium-carbon ferrochrome	'000 t	26	69	(62.3)%
– Low-carbon ferrochrome	'000 t	62	73	(15.1)%
Ferrosilicochrome	'000 t	87	156	(44.2)%
Ferrosilicomanganese	'000 t	165	147	12.2%
Ferro-silicon	'000 t	33	52	(36.5)%
Total Ferroalloys	'000 t	1,446	1,551	(6.8)%
Internal Consumption of ferroalloys	'000 t	226	230	(1.7)%
– percentage		15.6%	14.8%	

1 Including Serov from Q2 2008.

2 Including Serov from Q2 2008 and Tuoli from Q4 2008.

Production

In response to the significant weakening in demand in H1 2009, production was cut back for the majority of ferroalloy products. In H1 2009 the rate of chrome ore extraction was lower than in H1 2008 (H1 2009: 1,931 kt; H1 2008: 2,307 kt), due to the reduced market demand for both ore and chrome ferroalloys. In H2 2009 production recovered to above the level of the comparable period in 2008 (H2 2009: 2,446 kt; H2 2008: 2,024), in response to improved demand and the fact that all low-grade ore stockpiles had been processed by the end of 2008. Chrome ore extraction in 2009 was broadly steady, rising 1.1% to 4,377 kt, or 4,273 kt excluding Serov (2008: 4,331 kt; or 4,207 kt excluding Serov). However, at the same time, saleable chrome ore production in 2009 decreased 6.4% to 3,398 kt (of which Serov: 65 kt) (2008: 3,629 kt; of which Serov: 77 kt). The internal consumption of saleable chrome ore increased to 72.6% (2008: 71.5%).

Manganese ore extraction declined 1.7% to 2,252 kt (2008: 2,290 kt). In response to a drop in demand there was a fall of 11.7% in saleable manganese ore production. Production recovered progressively through 2009 accompanying an improvement in the market.

Operating Review continued

In 2009 the Ferroalloys Division produced 1,161 kt of ferrochrome, 2.9% lower than in 2008 (2008: 1,196 kt); including Serov, 105 kt (Q2-Q4 2008: 118 kt) and Tuoli, 28 kt (Q4 2008: 4 kt). The main reductions were in medium-carbon (down 62.3%; 2009: 26 kt; 2008: 69 kt) and low-carbon (down 15.1%; 2009: 62 kt; 2008: 73 kt) ferrochrome production. At the same time production of the principal product – high-carbon ferrochrome – increased 1.8% (2009: 1,073 kt; 2008: 1,054 kt). Production of ferrosilicomanganese increased 12.2% (2009: 165 kt; 2008: 147 kt).

For 2009, there was a 6.8% decrease in total ferroalloys production to 1,446 kt (2008: 1,551 kt).

Supply and demand

The ferrochrome market faced significant oversupply as a result of the speed of the impact of the global recession with inventory having increased through the supply chain by more than 1 million tonnes. The industry responded with significant cutbacks in capacity utilisation with effective production levels as low as 35% for the industry being recorded in Q1 2009 before recovery started to feed through in Q2 2009. A progressive improvement in demand and declining inventory levels, as economies around the world recovered resulted in ferrochrome production increasing through the year. South Africa remained the world's largest geographic source of ferrochrome supply to the stainless steel industry, comprising approximately 37% of 2009 global production (2008: 45%) with an effective operating capacity rate of around 55%. ENRC remained the second largest supplier at 17% (2008: 14%) and continued operations in Kazakhstan at about 90% of available capacity for 2009. Whilst the relative prices of ferrochrome and charge chrome fluctuate according to the supply-demand balance, the quality and chemistry of Kazakhstani high-carbon ferrochrome has traditionally commanded a premium to charge chrome.

Sales and pricing

The slowdown in the stainless steel industry, the primary consumer of ferrochrome, coupled with a large inventory build-up for the industry globally, meant that the quarterly benchmark price, the mechanism by which the global ferrochrome price is set, declined US\$1.06 per pound of chrome for Q1 2009 and a further US\$0.10 per pound of chrome for Q2 2009, to US\$0.69 per pound of chrome. With major destocking in the ferrochrome industry having effectively ended by the end of Q2 2009, and an improved economic outlook in the mature economies, Q3 2009 saw a much tighter supply-demand situation as stainless production reached a level of 80% capacity utilisation. At the same time, scrap availability tightened, due to lower economic activity and, with increasing ferrochrome demand, this added to increased tightness in supply. In addition, South African charge chrome producers were hindered by rising costs, with the effect of raising the floor cost of ferrochrome. This supply-demand condition continued into Q4 2009, resulting in an increase in the contract price by US\$0.20 per pound of chrome in Q3 2009 and a further increase in Q4 2009 of US\$0.14 per pound of chrome to US\$1.03 per pound of chrome.

Demand for medium- and low-carbon ferrochrome was adversely affected by the economic slowdown, particularly as they are very much dependent on the automotive, engineering steel and capital project sectors. Similar to charge and high-carbon ferrochrome, prices fell in Q1 2009 from the high levels seen in mid-2008, returning to the levels seen at the end of 2007. Chrome ore demand, affected by ferrochrome production, as China reduced its purchases due to excess inventory build up, was estimated at over 2 million tonnes at the start of 2009. Demand was further impacted by reduced demand from the chemical industry. With excess supply, prices fell in Q1 2009 and only recovered from Q2 2009 as demand,

driven by China's ferrochrome industry, fed the stainless steel industry improving demand.

Manganese alloys, which are primarily used in the production of carbon steel and are particularly dependent on the construction and automotive sectors, were significantly affected by the economic downturn. This directly impacted on manganese ore sales due to reduced carbon steel production and a reduced demand for manganese alloys. With excess stocks, reduced demand and excess capacity, manganese and alloy products saw a significant decline in prices in the early part of the year with a recovery accompanying demand late in 2009.

In 2009, the Ferroalloys Division's top five customers accounted for 34.7% (2008: 26.8%) of the Division's third-party sales revenue. The following table sets out the Ferroalloys Division's volume of third-party sales by product for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Ferroalloys:				
High-carbon ferrochrome	'000 t	971	859	13.0%
Medium-carbon ferrochrome	'000 t	30	55	(45.5)%
Low-carbon ferrochrome	'000 t	64	69	(7.2)%
Ferrosilicochrome	'000 t	39	59	(33.9)%
Ferrosilicomanganese	'000 t	167	141	18.4%
Ferrosilicon	'000 t	35	48	(27.1)%
Total ferroalloys	'000 t	1,306	1,231	6.1%
Chrome ore	'000 t	591	702	(15.8)%
Manganese ore	'000 t	572	753	(24.0)%
Iron-Manganese ore	'000 t	72	529	(86.4)%

Of the Ferroalloys Division's third-party sales in 2009; 29.3% (2008: 11.2%) were made to customers located in China; 20.7% (2008: 28.1%) in Western Europe; 17.3% (2008: 20.4%) in Russia; 12.8% (2008: 19.9%) in Japan; 7.9% (2008: 8.1%) in North America; 7.7% (2008: 7.0%) in South Korea and the Far East; and 4.3% (2008: 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; to reduce production costs by replacing outdated equipment; to further strengthen the Group's leading market position in ferroalloys worldwide; and to improve the environmental and safety performance of the Division.

In 2009, the Group completed the construction of a second chrome ore pelletising plant at Donskoy GOK with a capacity of 700 kt per annum. The project was completed on schedule and was operational from early July. The pelletising plant also produces saleable products from the output of an enrichment plant. The total investment amounted to US\$120 million.

A second enrichment plant at Donskoy GOK was put into operation in H2 2009. Construction of the blending depository is expected to be complete in Q3 2010. Total capital expenditure is approximately US\$40 million.

The investment programme of the Ferroalloys Division also includes the construction of new Direct Current ('DC') furnaces at the Aktobe plant at a cost of approximately US\$590 million, 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. Further, 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 2009 data the Group is believed to be a material exporter of iron ore and in the lowest third of the cost curve. The Iron Ore Division's operations include iron ore mines, crushing, beneficiation and pelletising plants and a thermal power station.

Competitive position

The Iron Ore Division has some significant strategic advantages over its major competitors. First, the location of the Group's large-scale iron ore reserves in northern Kazakhstan provides access to the important customer base of steel production plants in Russia, China and Kazakhstan, with relatively low transportation costs. In particular, the Group's facilities are located within 340 kilometres of its largest customer, MMK, and this proximity provides significant logistical and cost advantages. Second, the Division operates large-scale iron ore mines and processing plants with relatively low production costs. This cost advantage is largely driven by the relatively low cost of electricity, due to the Group's own power generation capacity.

Production summary

The following table sets out the production volumes for the Iron Ore Division's principal saleable products for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December 2009	2008	2009 vs 2008
Run-of-Mine ore extraction	'000 t	36,604	37,751	(3.0)%
Primary concentrate	'000 t	15,197	15,487	(1.9)%
Saleable concentrate	'000 t	8,541	7,835	9.0%
Saleable pellets	'000 t	6,182	6,952	(11.1)%

Production

For the year ended 31 December 2009, the Iron Ore Division had revenue of US\$1,093 million (2008: US\$1,498 million), which represented 28.5% (2008: 22.0%) of the Group's consolidated revenue.

Iron ore extraction improved steadily from the cutbacks initiated in Q4 2008, with Q3 and Q4 2009 volumes at full capacity. Total extraction for the full year 2009 fell 3.0% to 36,604 kt (2008: 37,751 kt), nonetheless a better result than we had expected at the beginning of 2009.

In response to recovering demand, primary iron ore concentrate production also increased through 2009. This enabled the Group to limit its production decline to 1.9%, producing 15,197 kt (2008: 15,487 kt) of primary concentrate. Primary concentrate is used for saleable concentrate and pellet production; saleable concentrate increased 9.0% from the prior year (2009: 8,541 kt; 2008: 7,835 kt), but there was a significant decline in saleable pellet of 11.1% (2009: 6,182 kt; 2008: 6,952 kt). The change in the mix of production reflected demand, with customers switching to less expensive concentrate in H1 2009; however, pellet recovered in H2 2009. As a result, the total annual saleable products (concentrate and pellet) volume in 2009 was broadly similar to 2008 (2009: 14,723 kt; 2008: 14,787 kt).

The customer sales mix for iron ore improved, reducing the Group's historic dependence on a single large customer (MMK), with the expansion of the Group's business in the Chinese market. For 2009 Chinese customers share of total sales volume increased to 42.9% (2008: 20.5%).

Supply and demand

The market for iron ore is primarily regional, as iron ore is a bulk commodity and, relative to its value, is expensive to transport. China, Brazil and Australia are the largest producers of iron ore, accounting for respectively, 39%, 17% and 16% of global output in 2009, based on crude ore. Other significant producers include the CIS and India. Global production of iron ore was 2,300 million tonnes in 2009, ahead 3.6% compared with 2008.

Typically, steel production and, as a result, demand for iron ore, follows the overall growth in industrial production. Depressed by weak steel production in late 2008 and H1 2009, leading iron ore producers reduced production and deferred expansions in H1 2009. Global demand for iron ore gradually recovered in H2 2009, and iron ore producers reported production increases in H2 2009.

Sales and pricing

With the economic downturn affecting the business of one of the Group's principal customers, MMK, the Group agreed to temporarily waive the minimum contractual volume of the long-term sales contract from Q4 2008 up to Q1 2010. Contractual sales are reviewed on a regular basis, taking into account developing market conditions. The MMK contract price is determined by reference to published world price benchmarks for iron ore concentrate and pellet. In 2009 MMK accounted for 52.6% (2008: 64.1%) of the Iron Ore Division's revenue and 8.8 million tonnes of saleable product.

Other iron ore markets for the Group are China and Kazakhstan. In 2009 the run rate of iron ore sales to China was approximately twice that of the comparable period in 2008, at approximately 6 million tonnes per annum, and close to our maximum logistics capacity ahead of the Government of Kazakhstan completing the China Gateway project. Sales in Kazakhstan were minimal in 2009.

Affected by the soft steel market between Q4 2008 and Q2 2009, when spot iron ore prices fell below contract prices, the benchmark for 2009–10 was not finalised until late June between the major iron ore producers and the principal European and Japanese steel makers. The benchmark price reduced on average by around 30% for fines and by around 48% for pellets. The global market subsequently improved, especially demand from China, which was very strong; the spot iron ore market saw a further marked recovery in Q4 2009. Consequently, leading iron ore producers have strong confidence of a marked increase in the prices for 2010–2011. The changes in the iron ore benchmark pricing system are being closely watched and the implications assessed.

The following table sets out the Iron Ore Division's volume of third-party sales by product for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December 2009	2008	2009 vs 2008
Saleable iron ore concentrate	'000 t	8,857	7,464	18.7%
Saleable iron ore pellet	'000 t	6,203	6,797	(8.7)%

Key initiatives

The Iron Ore Division's strategic objectives are: to maintain production capacities; to exploit the Group's access to low cost,

Operating Review continued

large-scale deposits of iron ore and low cost energy; and to further diversify the sales geography, product and customer mix.

The investment programme of the Division has been revised and feasibility studies are now being undertaken for the construction of a 5 million tonnes per annum pelletiser and a Direct Reduced Iron/Hot Briquetted Iron ('DRI/HBI') plant with a capacity of 1.4 million tonnes per annum. The total project cost is estimated to be US\$850 million. To support growing production the Division is planning an expansion of its ore base. Expansion includes six existing mines as well as the development of a new deposit. The estimated expenditure to increase iron ore extraction volumes by 10 million tonnes per annum amounts to US\$535 million.

Other expansion initiatives under review are:

- The construction of a cyclic conveyor complex at Karchasky pit at SSGPO. The investment would allow the Division to increase Karchasky's ore extraction capacity to 23 million tonnes per annum; and
- The expansion of the concentrating factory to 16 million tonnes per annum of iron ore.

Alumina and Aluminium Division

The Alumina and Aluminium Division produces and sells alumina to aluminium producers, and also produces and sells the Group's own aluminium. ENRC believes, based on 2009 data, that the Alumina and Aluminium Division is the world's sixth largest supplier of traded alumina by volume and is at the lower end of the global industry cost curve for alumina and aluminium.

The Alumina and Aluminium Division's vertically integrated operations include: bauxite mines; a limestone mine; an alumina refinery; an aluminium smelter; and a power station. The smelter allows the Alumina and Aluminium Division to process its own alumina into aluminium. Last year was the second year of operation of ENRC's aluminium smelter – the Kazakhstan Aluminium Smelter ('KAS') – which reached its run rate capacity of 125 kt per annum in Q2 2008. Construction of a further 125 kt annual capacity, bringing the total annual capacity to 250 kt per annum, is well underway and is expected to be completed no later than Q2 2010, well ahead of the original schedule.

Competitive position

The Division's focus on cost control, with the implementation of several cost-reduction programmes in 2009, enabled ENRC to retain its competitive cost position. The Group's bauxite reserves guarantee an on-going low-cost supply of raw materials for alumina production. Alumina and aluminium production benefit from the ability to buy low-cost energy from internal Group sources. As a result, ENRC's alumina and aluminium are both at the lower end of the industry cost curves.

Production summary

The following table sets out the production volumes for each of the Alumina and Aluminium Division's principal saleable products for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Run-of-Mine bauxite extraction	'000 t	5,130	5,160	(0.6)%
Alumina	'000 t	1,608	1,600	0.5%
Internal alumina consumption	'000 t	249	209	19.1%
– percentage		15.5%	13.1%	
Aluminium	'000 t	127	106	19.8%
Gallium	kg	18,702	18,666	0.2%

Production

For the year ended 31 December 2009, the Alumina and Aluminium Division had revenue of US\$563 million (2008: US\$864 million) representing 14.7% (2008: 12.7%) of the Group's consolidated revenue.

The Alumina and Aluminium Division extraction of bauxite was broadly steady at 5,130 kt (2008: 5,160 kt), as was alumina production at 1,608 kt (2008: 1,600 kt).

The aluminium smelter achieved its Phase 1 run-rate production target of 125 kt per annum in Q2 2008. Since then the Division has been producing aluminium at the planned Phase 1 capacity rate, consuming its own alumina. In 2009 the smelter consumed 249 kt, or 15.5%, of the Group's alumina production (2008: 209 kt, or 13.1%). The increase in the internal consumption of alumina was due to half of the Phase 2 pots being charged with alumina and put into operation in December 2009. The increased production of aluminium in 2009 reflected the ramp-up in production in 2008 being effective in 2009.

Supply and demand

Global alumina production is estimated to have been approximately 74.8 million tonnes in 2009 (2008: 77.7 million tonnes). Total aluminium production in 2009 is estimated to have been 36.8 million tonnes (2008: 40.0 million tonnes) of which 13 million tonnes, or 35%, was from China.

After a weak start to the year, as a result of the global economic crisis, demand for aluminium started to pick up in mid-2009, although commentators have suggested that a significant proportion of physical aluminium stocks were tied up in financial transactions. Worldwide aluminium stocks at the London Metal Exchange ('LME') stood at 4.6 million tonnes at the end of 2009, double the 2.3 million tonnes at the beginning of the year, with total inventories at 10 weeks consumption. Stronger demand combined with reduced availability of physical metal drove up the LME aluminium cash price in 2009 from its February low of US\$1,254 per tonne to US\$2,208 per tonne at the end of the year. The average price in 2009 was US\$1,662 per tonne (2008: US\$2,574 per tonne). Consumption of aluminium is believed to have fallen in 2009 by about 2.9 million tonnes, or 8%, to 34.5 million tonnes. Production of aluminium is estimated to have fallen in 2009 by 2.6 million tonnes, or 6.5%. ENRC believes aluminium production in 2009 to have exceeded consumption by as much as 3 million tonnes. Many aluminium producers implemented significant cuts in production capacity. ENRC believes these cuts to be mostly permanent at Western smelters but anticipates lots of idled capacity, notably in China, to be restarted, driven by the LME aluminium price having risen to levels above US\$2,000 per tonne.

ENRC believes that in 2010 the aluminium production surplus will be more limited as consumption is expected to rise by as much as 10%. Restarting of idle capacity, LME-inventories becoming available for consumption and new capacity coming on-stream are factors which ENRC believes could negatively affect the LME aluminium price in 2010. Cost inflation of input materials, increased demand, and an ongoing influx of investors' funds into aluminium as an investment instrument are factors ENRC believes could positively affect the LME aluminium price in 2010.

Sales and pricing

In 2009, the Group sold 1.4 million tonnes (2008: 1.4 million tonnes) of alumina to United Company RUSAL ('UC RUSAL') of Russia under a long-term supply contract that expires in 2016. The pricing under this contract is linked as a percentage to the LME cash price of primary aluminium. In 2009 UC RUSAL, the Division's largest single customer accounted for 55.6% (2008: 60.2%) of the Division's sales

revenue. The balance of alumina production is consumed by the Group at its aluminium smelter.

The Group sold 125 kt of primary aluminium in 2009, of which 31 kt was delivered to new customers located in Russia, Kazakhstan, and the Ukraine. Other sales of aluminium were by way of a distribution agreement with Glencore International. The LME aluminium spot price serves as the basis for the pricing of all of ENRC's aluminium contracts.

In June 2009 the LME approved the listing of primary aluminium ingots produced at ENRC's aluminium smelter, KAS.

The following table sets out the Alumina and Aluminium Division's volume of third-party sales by product for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Alumina	'000 t	1,359	1,393	(2.4)%
Aluminium	'000 t	125	104	(20.2)%

LME aluminium prices in 2009 fell to levels not seen since the beginning of 1999. The economic crisis drove prices lower, particularly in Q1 2009, as demand fell faster than the reduction in production capacity. The Division's average sales price for aluminium in 2009 was US\$1,605 per tonne (2008: US\$2,571 per tonne).

Key initiatives

The Alumina and Aluminium Division's principal strategic objectives are: to increase the capacity of aluminium production in Kazakhstan; to exploit the Group's low-cost electricity, bauxite and alumina; and to reduce costs.

The Phase 2 expansion of the aluminium smelter by an additional 125 kt per annum is ahead of schedule, and half of the Phase 2 pots were put into operation at the end of 2009. The new 250 kt per annum run rate capacity is expected to be operational in Q2 2010. The construction of an anode plant will allow the Group to be independent of third-party suppliers and to provide sufficient anodes for the increased aluminium production. The plant is planned to be commissioned in 2011. Total capital expenditure for Phase 2 of the aluminium smelter and the construction of the anode plant is US\$500 million.

To support the growing production of aluminium the Group made a decision to resume its deferred expansion of alumina production. By mid-2011 we expect to achieve an alumina capacity of 1.7 million tonnes per annum. This investment will allow the Division to maintain existing sales to customers and provide sufficient alumina for internal consumption.

Energy Division

The Energy Division is one of the largest electricity providers in the Republic of Kazakhstan, accounting for approximately 17.2% of the country's recorded electricity production in 2009 (2008: 14.5%). Taking into account all of the energy generation facilities of ENRC, including SSGPO, the alumina refinery (Aluminium of Kazakhstan ('AOK')) and the Aktobe ferroalloys smelter, the share of Kazakhstan's energy production was 23.5% in 2009 (2008: 20.2%).

The Energy Division provides a cost-effective energy supply to the Group's principal Kazakhstani operating divisions, as well as producing a surplus for sales to third parties in Kazakhstan. For the year ended 31 December 2009, the Energy Division had revenue of US\$402 million (2008: US\$436 million) – of which US\$196 million

was derived from third-party sales (2008: US\$203 million) – representing 5.1% (2008: 3.0%) of the Group's consolidated revenue.

Production summary

The following table sets out the production volumes for each of the Energy Division's principal saleable products for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Run-of-Mine coal extraction	'000 t	20,059	19,790	1.4%
Energy Division consumption of coal	'000 t	8,338	7,148	16.6%
– percentage		41.6%	36.1%	
Sale of coal to other Group Divisions	'000 t	4,646	4,773	(2.7)%
– percentage		23.2%	24.1%	
Electricity generation	GWh	13,478	11,640	15.8%
Sale of electricity to Group Divisions	GWh	8,190	7,974	2.7%
– percentage		60.8%	68.5%	

Production

In 2009, the Energy Division extracted 20,059 kt (2008: 19,790 kt) of coal from the Vostochny mine, an increase of 1.4%. The Division's internal coal consumption increased 16.6% to 8,338 kt, or 41.6% of total extraction (2008: 7,148 kt; 36.1%), as higher volumes of electricity were produced. Sales of coal to other Group Divisions saw a limited decline, falling 2.7% to 4,646 kt, or 23.2% of total extraction, (2008: 4,773 kt; 24.1%). There was also a 9.5% decrease in external coal sales to 7,280 kt (2008: 8,044 kt), representing 36.3% (2008: 40.6%) of coal mined, reflecting a milder winter in 2008–2009 and reduced demand due to lower economic activity in 2009. Coal extraction during 2009 changed from quarter to quarter, based on the usual seasonal changes in demand.

Electricity generation increased sharply, ahead 15.8%, to 13,478 GWh (2008: 11,640 GWh), as more capacity was available; in 2008 a turbine block was out of service for planned refurbishment and other capacity was taken off-line in response to the reduced demand in H2 2008. The proportion of sales of electricity to other Group Divisions decreased to 60.8% of electricity generated (2008: 68.5%). Sales of electricity to other Group Divisions increased from quarter to quarter, reflecting improved activity, notably in the Ferroalloys and Iron Ore Divisions.

Sales and pricing

The following table sets out the Energy Division's volume of third-party sales by product for 2009 and 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Coal	'000 t	7,280	8,044	(9.5)%
Electrical energy	GWh	4,309	2,825	52.5%

Sales and pricing – Coal

Weak demand from the industrial and power sectors affected coal output both in the Republic of Kazakhstan and Russia, each declining some 9% in 2009. In the Republic of Kazakhstan, ENRC sold 3.0 million tonnes of coal to third parties (2008: 3.1 million tonnes) at an average sales price of KZT850 (US\$5.76) per tonne (2008: KZT721 (US\$5.99) per tonne), an increase of 17.9% in local currency terms. Russian utilities reduced their coal imports from Kazakhstan. The decline in imports was prompted by a fall in electricity generation in Russia and also by the desire of utilities to diversify their supply sources. The Energy Division sold 4.3 million

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tonnes of coal to Russia (2008: 5.0 million tonnes). The average annual selling price to Russian customers in US dollars decreased 13.8% to US\$21.2 per tonne (2008: US\$24.6 per tonne).

Sales and pricing – Electricity

Domestic electricity consumption in Kazakhstan declined in 2009. Domestic power producers operated with idled capacity due to weak electricity demand in H1 2009. Improvements in economic conditions and industrial demand led electricity demand to recover in H2 2009. In 2009 electricity generation in Kazakhstan fell 2% to 78.4 billion kWh; total electricity consumption declined 3% to 77.9 billion kWh. In 2009 the Group's internal consumption of electricity was marginally ahead, however, Energy Division sales of electricity to third parties rose 52.5%, due to rising demand and to the increase in available capacity. The average sales price to third parties in local currency increased 11.3% to KZT2.95 (US 2.00 cents) per kWh (2008: KZT2.65 (US2.20 cents) per kWh). As the electricity market in Kazakhstan recovers, we anticipate growth in consumption. The Government of Kazakhstan has imposed restrictions on annual price increases for local sales until 2015.

Key initiatives

The Energy Division's principal strategic 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 the power supply to the Group's Kazakhstan operating Divisions and allow the Group to maintain its presence in Kazakhstan's wholesale power market.

The investment programme of the Division included:

- Installation of overburden stripping equipment at a cost of US\$85 million was completed in Q1 2010. This investment consists of equipment for the continuous extraction, crushing, transportation and stockpiling of overburden with a processing capacity of 10 million cubic metres per annum. This should improve the efficiency of coal production; in addition the machinery and processes were selected to satisfy environmental requirements.
- Construction of a new power unit with an investment of approximately US\$230 million, Phase 1 will be completed by the end of 2010, and Phase 2 in early 2011. Total additional installed electricity generating capacity is expected to be 325MW.
- The reconstruction of power unit 6 at Aksu, upgrading its capacity to 325 MW, at an estimated cost of US\$230 million, is planned to be complete by the end of 2012. It is intended to achieve savings on fuel consumption, whilst environmental emissions will be reduced by the implementation of up-to-date filters.
- The Group has renewed feasibility work on the construction of two 600 MW power units. In addition the Group is undertaking feasibility work on expanding coal extraction by 5 million tonnes per annum, to maintain current coal sales volumes in addition to requirements for the new power units.

Logistics Division

The Logistics Division provides transportation and logistics services to the Group's principal Kazakhstani 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 Far East market.

Production summary

The following table sets out the principal volumes for the Logistics Division for the years ended 31 December 2009 and 31 December 2008:

		Years ended 31 December		2009 vs
		2009	2008	2008
Tonnage of products transported by railway	'000 t	58,181	58,489	(0.5)%
Percentage of products tonnage attributable to third parties		10.2%	19.2%	

Production

In 2009 the Logistics Division transported 58,181 kt (2008: 58,489 kt) of products by railway, broadly in line with volumes in 2008. The share of third-party freight forwarding declined to 10.2% (2008: 19.2%) due to increased logistics demand for the Group's own production. In 2009 the tonnage of the Group's products transported by railway grew 10.5% (2009: 52,223 kt; 2008: 47,241 kt).

External railroad repair service volumes decreased to 198 kilometres (2008: 408 kilometres), due to lower demand from the State railway company of Kazakhstan.

Key initiatives – Withdrawal from the China Gateway Project

In July 2009 ENRC agreed with the Government of Kazakhstan that it would not proceed with the China Gateway Project, a rail link with China. ENRC did not reach agreement with the Government on the sharing of risks, and the Group therefore felt unable to proceed with a project that was not offering sufficient value accretion to shareholders. On 23 October 2009 the Group signed an assignment agreement with the Ministry of Transport and Communication of the Republic of Kazakhstan and the National Railway Company Kazakhstan Temir Zholy ('KTZ') for ENRC to receive a total of US\$7 million to cover its initial project costs.

Other Non-ferrous Division

The Other Non-ferrous Division operates principally in the Democratic Republic of Congo ('DRC'), where it mines copper and cobalt and processes the ore at Luita, in a joint venture with the State-owned Gécamines as a minority (30%) partner. The Division was formed by the acquisition of CAMEC on 9 November 2009. The business is in the process of developing its large copper reserves and investment is planned that will increase copper oxide production to 75 kt per annum within approximately three years. In addition the Division is the world's largest independent cobalt concentrate producer, producing about 10% of global demand. On the basis of 2009 data it is believed that the Other Non-ferrous Division could become one of the world's most significant exporters of copper and cobalt and be in the lowest quartile of the copper industry cost curve. The Other Non-ferrous Division's copper and cobalt operations include open cast mines, crushing, beneficiation, concentrator plants and an electro-winning facility. A cobalt solvent extraction ('SX/EW') plant, for the production of cobalt metal, is expected to be commissioned in H2 2010. In addition, the Other Non-ferrous Division includes a road logistics business operating in Central and Southern Africa and a number of development prospects: Mozambique – coal; Mali – bauxite; Zimbabwe – platinum; and South Africa – fluorspar.

On 18 February 2010, the Group announced that it had entered into a conditional agreement for the acquisition from related parties of Enya Holdings BV ('Enya') which holds a 90% interest in Chambishi

Metals PLC ('Chambishi'), a Zambian copper and cobalt producer, together with Comit Resources FZE ('Comit'), a Dubai-based marketing and sales company that historically has handled Chambishi's copper and cobalt sales. The Chambishi acquisition was completed in early April and it will be integrated into the Other Non-ferrous Division.

Competitive position

The Other Non-ferrous Division's copper and cobalt capacity enjoys significant strategic advantages. The DRC contains a significant proportion of the world's copper resources outside of Chile. The copper rich deposits are well endowed with both readily exploitable oxide and sulphide ores. The business is in the process of developing its copper reserves, with an estimated contained copper resource of 1,478 kt at 2.6% copper content. It is expected that the available grades and volumes, and additional capital expenditure, will enable the growth of copper production very substantially ahead of the current production capacity of about 20 kt per annum and investment will enable the production of copper cathode Grade A – the Group is currently targeting production to reach 75 kt per annum over three years.

The DRC contains the world's largest cobalt reserves, almost half of the world's supply, with some of the highest grades available. The business is in the process of exploiting its large cobalt reserves with an estimated contained cobalt resource of 265 kt at 1.3% cobalt content. Current production capacity is about 8 kt per annum, a substantial proportion of the world's available capacity. The high grade cobalt concentrate product is sought after as a blend product for other lower grade products exported by local producers. A second significant advantage is that the cobalt production is independent of copper production and manufacture. The third advantage is that the cobalt grades and 'impurity loadings' in the ore are such that high quality cathode can be produced by the cost effective heap leach to SX/EW process, which will facilitate a bottom quartile cost position and greater protection against price volatility.

Logistics costs are a substantial component of overall remote mine development, comprising as much as a third of the overall mine development cost. The Other Non-ferrous Division is supported by an in-house freight and haulage company, which provides a secure and priority delivery capability with a positive impact on project time-line delivery and cost.

Production summary

The following table sets out the production volumes of the Other Non-ferrous Division and relates to the two months ended 31 December 2009. The acquisition of CAMEC and its consolidation as a subsidiary was effective from 9 November 2009:

		From November 2009
Copper		
Run of mine ore extraction	'000 t	215
Saleable copper cathode	t	2,771
Cobalt		
Run of mine ore extraction	'000 t	169
Saleable cobalt concentrate	t	1,297

Production – Copper

In the last two months of 2009 copper cathode standard grade production included the benefits of the commissioning of additional mining fleet vehicles and the recommencement of operations at the Disele Mine, one of several mines that feed the Luita processing facility. Preparations made for the 'rainy season' were successful and evident in the production results.

Production – Cobalt

In the two-months to end 2009 the level of production of cobalt concentrate reflected improved market demand.

Supply and demand – Copper

The demand for copper is largely driven by demand for construction and for electronic products. Industrial machinery, transportation and consumer products are other significant sources of demand. The highest grade copper is LME Grade A copper.

Global supply in 2009 amounted to 18.4 million tonnes; consumption fell to about 17.5 million tonnes, due to reduced industrial demand. The market balance is moving towards undersupply as forecast new production does not keep up with estimated future demand. The main source of copper is South America, specifically Chile, which accounts for approximately 34% of global production. Other key suppliers are: China, Russia and Kazakhstan. In addition scrap provides about 1 million tonnes per annum; about 5% of the global supply of copper. The main markets for copper are: China; rest of Asia; Europe; and North America.

In 2009 copper consumption and its price were driven by demand from China and emerging markets with some evidence of restocking and inventory build-up, although overall demand fell about 3.1%. For the short-term copper is expected to continue to maintain a supply surplus as an anticipated growth in Chinese demand is partly offset by expectations of weaker demand in the US and Europe. This condition is expected to persist until perhaps 2012, when the market is expected to move towards a deficit, caused by a recovery in demand whilst supply will be limited by aging mines and a lack of new replacement projects.

Supply and demand – Cobalt

The market for cobalt is driven by chemicals (including rechargeable batteries which comprise almost one-third of total usage). Other key sources of demand are superalloys (in the aerospace industry) and special steel, carbides and diamond tools, magnets and high speed steel applications. The market for cobalt is a global market, although as a producer and consumer China has emerged as the dominant participant.

Cobalt has multiple applications each requiring a detailed specification at the manufacturing stage, but the overall market is small in comparison with other base metals. In 2009 approximately 50% of the world's refined cobalt was a by-product of nickel whilst an additional 45% was produced as a by-product of copper operations, mainly in the DRC and Zambia. Cobalt is also a by-product of platinum operations whilst scrap is another important source of supply. The remaining 5% of cobalt refined production came from primary producers. The DRC is the largest single source of cobalt with almost half of the world's production; Zambia, Australia and Cuba possess the other major reserves. The main source of demand is China which is a significant buyer of concentrate and intermediate materials for further refining and consumption in China.

For 2009 estimated world demand was approximately 52 kt, a decrease of 9.1% from 2008, reflecting the impact of the global economic downturn. Supply amounted to approximately 55 kt in 2009 with a number of key producers announcing cutbacks. In 2009, demand from China, particularly from the rechargeable battery chemical sector, helped keep the market from oversupply. Most other applications, namely the superalloys, hard metal and magnet sectors, were well below 2008 consumption levels. Looking forward, with limited inventory available, estimates are that in the near-term cobalt production will remain steady, creating a short-term supply

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deficit as demand recovers. In the medium-term several new projects are sufficiently advanced to be expected to start production and to produce significant quantities of cobalt in late 2010 – typically as a by-product of nickel or copper.

It is expected that the cobalt chemical salts market will continue to dominate demand in the medium term and ENRC intends to position itself within this market, producing both high quality cobalt metals and chemical. Longer-term demand is set to grow from rechargeable batteries for electronics applications and rechargeable batteries for automobiles

Sales and Pricing

		From November 2009
Saleable copper cathode	t	2,778
Saleable cobalt concentrate	t	1,169

Sales and pricing – Copper

Prices and volumes for copper metal are typically negotiated on an annual basis, although with some contracts for quarterly commitments. While traditional Western markets are still large consumers of metal, Asia, particularly China, is the key growth market. Most copper products are priced based on LME prices. In the US, the Comex price is an alternative pricing mechanism.

By November 2009 metal exchange-related inventories were at their highest level since February 2004, reflecting weak demand from the US and Europe and some re-exporting of copper from China, where inventory levels remain high. Despite increased inventory levels, the price reached in excess of US\$7,000/tonne in December. The average price in Q4 2009 exceeded US\$6,640/tonne.

Sales and pricing – Cobalt

Prices and volumes for cobalt concentrate are typically negotiated on an annual basis, with some contracts covering multiple years. While there are weekly quotes available for cobalt concentrate, long term supply contracts are usually a formula linked to the cobalt metal price. Cobalt prices are quoted twice weekly by 'Metal Bulletin' and from late February 2010 cobalt prices were available on the LME.

Q4 2009 saw renewed demand and higher prices due to a combination of consumer restocking, Chinese buying and speculative buying in advance of the introduction of cobalt onto the LME. The cobalt metal price ended the year at \$19.75 per pound.

Key initiatives

The Other Non-ferrous Division's principal objectives are: to expand the existing copper and cobalt operations; and to provide a basis for future growth projects across the region. The copper and cobalt operations will be developed through investments in processing assets, supported by an extensive exploration campaign.

The Group reviewed its projects for the Other Non-ferrous Division in the DRC and elsewhere, following the completion of its acquisition of CAMEC. As a result of the review the scope and scale of the copper and cobalt investment projects were increased and the planned capital expenditure has risen to US\$455 million. The original investment projects, totalling US\$230 million, include:

- Expansion of the existing operations in the DRC to produce 75 kt per annum of copper (oxide) production and the completion of a new solvent extraction plant for copper in 2013;
- Commissioning of an SX/EW plant to start cobalt metal production in H2 2010; and
- Exploration and proving of the resources base.

Following the review the Group added new investment projects:

- Installation of 60 kt per annum production capacity for copper (sulphides) production concentrate at an estimated cost of US\$150 million; and
- Additional exploration in the DRC and for a number of the other potential development projects acquired with CAMEC.

Sales & Marketing

The Group's Sales & Marketing function provides ENRC's operating divisions with a fully integrated and centrally organised sales and marketing resource. This facilitates the efficient coordination of the Group's external sales, monitoring of key markets and general production strategy. The Sales & Marketing function performs several key functions: strategy and planning; commercial contract terms and customer relations; market research; and coordinating logistics. The centralisation of this function provides significant operational advantages to the Group, including the identification and exploitation of market synergies and improved operational efficiencies. In addition, as the markets in which the Group operates are geographically diverse and complex, the size, scope and expertise of the sales and marketing function enables it to gather significant market information that is not otherwise generally available.

Financial Review

Group Performance

The Group's financial results for the year ended 31 December 2009, whilst weaker than 2008, nonetheless reflected a resilient performance.

The Group's Underlying EBITDA for 2009 of US\$1,462 million (2008: US\$4,161 million) was significantly impacted by lower commodity prices in 2009 and fell 64.9%. The decline in revenue was partially offset by management's cost control initiatives, lower distribution costs, and the devaluation of the Kazakhstani tenge against the US dollar.

Revenue for 2009 decreased 43.9%, or US\$2,992 million, to US\$3,831 million (2008: US\$6,823 million) whilst like-for-like revenue decreased 41.9% to US\$3,507 million (2008: US\$6,040 million). Lower average commodity prices accounted for nearly all of the decline in revenue, with the Ferroalloys Division accounting for more than 75% of the decline in Group revenue, the Iron Ore Division 14% and the Alumina and Aluminium Division 10%.

Cost of sales decreased 6.8%, or US\$141 million, to US\$1,947 million (2008: US\$2,088 million), whilst like-for-like Cost of sales declined 13.1%, or \$232 million, to US\$1,539 million (2008: US\$1,771 million). Management's cost control initiatives and lower prices led to a fall in the costs of materials used, as well as savings on energy, labour, repair and maintenance costs. In addition, the Cost of sales decrease was enhanced by the devaluation of the Kazakhstani tenge against the US dollar, in which some 75% of the Group's Cost of sales are denominated. These reductions were partially offset by the destocking of inventory with a higher inventory cost carried over from 2008 and foreign currency hedging losses of US\$61 million. Included in cost of sales for the first time was MET of US\$166 million (Royalties 2008: US\$48 million).

Distribution costs decreased 15.1%, or US\$65 million, to US\$366 million (2008: US\$431 million). The decrease was mainly due to a fall in transportation costs as a result of the Ferroalloys Division selling greater quantities to neighbouring China, instead of the Group's traditional and more distant markets such as North America and Western Europe, coupled with the Energy Division's lower third-party coal sales volumes. Partially offsetting these reductions were increased transportation costs in the Iron Ore Division, driven by sales to China and the change in delivery terms from Delivered at Frontier ('DAF') to First Carrier ('FCA'). The devaluation of the Kazakhstani tenge and the weakening of the Russian rouble had a favourable effect on the Group's Distribution costs reducing Kazakhstan and Russian railway tariffs in US dollar terms.

Selling, general and administrative expenses declined 14.9%, or US\$63 million, to US\$359 million (2008: US\$422 million). This was principally due to savings in taxes other than income tax, professional and other services as well as lower provisioning for impairment of trade and other receivables.

Other operating income included a one-off foreign exchange gain resulting from the devaluation of the Kazakhstani tenge, amounting to US\$210 million for 2009.

The Group's Operating profit decreased 64.3% or US\$2,476 million, to US\$1,374 million (2008: US\$3,850 million) realising an operating profit margin of 35.9% (2008: 56.4%). The Ferroalloys Division contributed 77% of this fall, US\$1,908 million; the Iron Ore Division 15%, US\$382 million; and the Alumina and Aluminium Division 9%, US\$213 million.

Finance income increased 44.7% or US\$59 million, to US\$191 million (2008: US\$132 million), primarily due to the one-off foreign

Financial Review continued

exchange gain of US\$104 million resulting from the devaluation of the Kazakhstani tenge against the US dollar, which is in addition to the foreign exchange gain recognised in Other operating income. Group Finance costs of US\$157 million (2008: US\$143 million), included foreign exchange losses of US\$75 million arising from the devaluation of the Kazakhstani tenge against the US dollar.

The share of profit of joint venture and associates was US\$31 million (2008: US\$12 million loss). This included a US\$7 million profit contribution from the Group's 25% interest in Shubarkol (2008: nil) and a profit realised by the BML joint venture of US\$24 million, derived from foreign exchange gains and fair value gains on non interest bearing loans advanced by the joint venture partners.

Ferroalloys Division

In millions of US\$	Years ended 31 December		2009 vs 2008
	2009	2008	
Revenue	1,874	4,156	(54.9)%
Third parties	1,871	4,151	(54.9)%
Inter-segment	3	5	(40.0)%
Cost of sales	(934)	(1,017)	(8.2)%
Gross profit	940	3,139	(70.1)%
Gross margin	50.2%	75.5%	
Distribution costs	(185)	(277)	(33.2)%
Selling, general and administrative expenses	(141)	(159)	(11.3)%
Net other operating income/ (expense)	167	(14)	(1,292.9)%
Operating profit	781	2,689	(71.0)%
Operating profit margin	41.7%	64.7%	
Depreciation, amortisation and impairment	(90)	(100)	(10.0)%
KZT devaluation	164	-	n/a
Underlying EBITDA	707	2,789	(74.7)%
Underlying EBITDA margin	37.7%	67.1%	

Key facts

		Years ended 31 December	
		2009	2008
Sales Volumes			
Ferroalloys – total	'000 t	1,306	1,231
Chrome ore	'000 t	591	702
Manganese concentrate	'000 t	572	753
Iron-manganese concentrate	'000 t	72	529
Prices			
Ferroalloys – total	US\$/tonne	1,252	2,815
Chrome ore	US\$/tonne	214	533
Manganese concentrate	US\$/tonne	142	342
Iron-manganese concentrate	US\$/tonne	27	60
Unit Costs¹			
Ferroalloys – total	US\$/tonne	644	749
Chrome ore	US\$/tonne	32	22
Manganese concentrate	US\$/tonne	101	83
Iron-manganese concentrate	US\$/tonne	17	10

¹ Unit costs: Cost of sales divided by sales volumes.

The Ferroalloys Division's results were greatly impacted by a marked decline in prices, particularly for high-carbon ferrochrome and chrome ore.

Of the Division's 54.9%, or US\$2,280 million, decline in third-party revenue, US\$2,167 million was due to lower commodity prices, to which ferroalloys prices contributed US\$1,869 million and chrome ore prices contributed US\$187 million.

During the year, sales volumes steadily recovered from the impact of the global economic downturn with high-carbon ferrochrome and ferrosilicomanganese volumes increasing 13.0% and 18.4% respectively, whilst total ferroalloys volumes increased 6.1%. Although weaker market conditions resulted in significantly lower sales volumes for all other products within the Ferroalloys Division, with chrome ore experiencing a 15.8% decline in volume, signs of recovery were generally evident in H2 2009.

The 8.2%, or US\$83 million, reduction in Cost of sales was largely due to savings on the costs of materials, labour and energy costs, with the devaluation of the Kazakhstani tenge and lower overall sales volumes also being beneficial contributory factors. Savings in the costs of materials were achieved as a result of lower fuel and gas prices, along with an increased consumption of Russian coke rather than the more expensive Chinese coke. Included in Cost of sales for the first time was MET which amounted to US\$113 million (Royalties 2008: US\$24 million). Unit costs of sales for ferroalloys fell 21% on 2008 (excluding MET/Royalties).

The US\$92 million reduction in Distribution costs was mainly attributable to more products being shipped to China instead of the Group's traditional and more distant markets, of North America, Japan and Western Europe.

Selling, general and administrative expenses decreased US\$18 million, largely due to cost control measures.

The increase in other operating income reflected foreign exchange gains that arose on devaluation of the Kazakhstani tenge, amounting to US\$164 million.

The Division's Underlying EBITDA decreased 74.7%, or US\$2,082 million, to US\$707 million. Serov contributed US\$40 million and Tuoli US\$4 million to Underlying EBITDA. The total contribution of the Ferroalloys Division to the Group's Underlying EBITDA in 2009 was 48.3% (2008: 67.0%).

Iron Ore Division

In millions of US\$	Years ended 31 December		2009 vs 2008
	2009	2008	
Revenue	1,093	1,499	(27.1)%
Third parties	1,093	1,498	(27.0)%
Inter-segment	-	1	(100.0)%
Cost of sales	(486)	(468)	3.8%
Gross profit	607	1,031	(41.1)%
Gross margin	55.5%	68.8%	
Distribution costs	(151)	(113)	33.6%
Selling, general and administrative expenses	(50)	(74)	(32.4)%
Net other operating income/ (expense)	47	(9)	(622.2)%
Operating profit	453	835	(45.7)%
Operating profit margin	41.4%	55.7%	
Depreciation, amortisation and impairment	(79)	(84)	(6.0)%
KZT devaluation	47	-	n/a
Underlying EBITDA	485	919	(47.2)%
Underlying EBITDA margin	44.4%	61.3%	

Key facts

		Years ended 31 December	
		2009	2008
Sales Volumes			
Iron ore concentrate	'000 t	8,857	7,464
Iron ore pellet	'000 t	6,203	6,797
Prices			
Iron ore concentrate	US\$/tonne	64	80
Iron ore pellet	US\$/tonne	79	126
Unit Costs¹			
Iron ore concentrate	US\$/tonne	24	26
Iron ore pellet	US\$/tonne	34	36

1 Unit costs: Cost of sales divided by sales volumes.

The Iron Ore Division was significantly impacted by the fall in commodity prices and adverse market conditions, including an increased proportion of lower priced concentrate sales, resulting in a US\$405 million reduction in third-party revenue. In H2 2009 the sales volume mix saw a shift back towards the higher-priced pellet product.

The US\$18 million increase in Cost of sales was largely driven by higher sales volumes specifically the impact of inventory destocking of about US\$40 million along with realised losses on the cash flow hedges of US\$47 million. These were offset by savings on materials and labour costs, and with the devaluation of the Kazakhstani tenge being a large contributor for these cost reductions. Included in the cost of sales for the first time was MET of US\$43 million (Royalties 2008: US\$13 million). Unit cost of sales for saleable iron ore concentrate fell 15% in 2009 (excluding MET/Royalties).

The US\$38 million increase in Distribution costs resulted from a larger proportion of sales to China, which attracted higher tariffs, in comparison with sales to MMK.

Selling, general and administrative expenses decreased US\$24 million, largely due to savings on staff, sponsorship and consulting costs.

Other operating income increased US\$56 million to US\$47 million (2008: US\$9 million expense), of which US\$47 million was due to foreign exchange gains resulting from the devaluation of the Kazakhstani tenge.

The Division's Underlying EBITDA decreased US\$434 million to US\$485 million. The total contribution of the Iron Ore Division to the Group's Underlying EBITDA in 2009 was 33.2% (2008: 22.1%).

Alumina and Aluminium Division

In millions of US\$	Years ended 31 December		2009 vs
	2009	2008	2008
Revenue	565	867	(34.8)%
Third parties	563	864	(34.8)%
Inter-segment	2	3	(33.3)%
Cost of sales	(484)	(551)	(12.2)%
Gross profit	81	316	(74.4)%
Gross margin	14.3%	36.4%	
Distribution costs	(36)	(42)	(14.3)%
Selling, general and administrative expenses	(37)	(60)	(38.3)%
Net other operating (expense)/income	(3)	4	(175.0)%
Operating profit	5	218	(97.7)%
Operating profit margin	0.9%	25.1%	
Depreciation, amortisation and impairment	(65)	(77)	(15.6)%
KZT devaluation	(8)	-	n/a
Underlying EBITDA	78	295	(73.6)%
Underlying EBITDA margin	13.8%	34.0%	

Key facts

		Years ended 31 December	
		2009	2008
Sales Volumes			
Alumina	'000 t	1,359	1,393
Aluminium	'000 t	125	104
Prices			
Alumina	US\$/tonne	232	380
Aluminium	US\$/tonne	1,605	2,691
Unit Costs¹			
Alumina	US\$/tonne	197	244
Aluminium	US\$/tonne	1,335	1,728

1 Unit costs: Cost of sales divided by sales volumes.

The results of the Alumina and Aluminium Division were significantly impacted by a decline in commodity sales prices, resulting in a 34.8%, or US\$301 million, reduction in third-party revenue. Lower realised prices reduced revenue by US\$340 million. Overall, however, higher sales volumes were achieved by the Division, with the increase in aluminium sales leading to an increase in revenue of US\$54 million. This was partially offset by a decline in third-party sales volumes for alumina and gallium.

The US\$67 million reduction in Cost of sales was largely due to savings on materials and labour costs, partially offset by realised losses on cash flow hedges. Included in Cost of sales for the first time was MET which amounted to US\$10 million (Royalties 2008: US\$7 million). Unit cost of sales of alumina (excluding MET/Royalties) fell 20%. The unit cost of sales of aluminium (excluding MET/Royalties) fell 23%.

The US\$6 million reduction in Distribution costs was largely due to a greater volume of shipments made to Russia, in comparison to the more distant Baltic and Black Sea ports, along with the positive impact on Distribution costs of the devaluation of the Kazakhstani tenge.

Selling, general and administrative expenses decreased US\$23 million, due to savings on labour and travel costs.

Other operating expenses increased US\$7 million to US\$3 million (2008: US\$4 million income), of which US\$8 million was due to an adverse effect of the Kazakhstani tenge devaluation.

Financial Review continued

The Division's Underlying EBITDA decreased US\$217 million to US\$78 million. The total contribution of the Alumina and Aluminium Division to the Group's Underlying EBITDA in 2009 was 5.3% (2008: 7.1%).

Energy Division

In millions of US\$	Years ended 31 December		2009 vs 2008
	2009	2008	
Revenue	402	436	(7.8)%
Third parties	196	203	(3.4)%
Inter-segment	206	233	(11.6)%
Cost of sales	(152)	(194)	(21.6)%
Gross profit	250	242	3.3%
Gross margin	62.2%	55.5%	
Distribution costs	(52)	(71)	(26.8)%
Selling, general and administrative expenses	(20)	(21)	(4.8)%
Net other operating income/ (expense)	1	(4)	125%
Operating profit	179	146	22.6%
Operating profit margin	44.5%	33.5%	
Depreciation, amortisation and impairment	(41)	(31)	32.3%
KZT devaluation	7	-	n/a
Underlying EBITDA	213	177	20.3%
Underlying EBITDA margin	53.0%	40.6%	

Key facts

		Years ended 31 December	
		2009	2008
Sales volume			
Third-party coal	'000 t	7,280	8,044
Third-party electrical energy	GWh	4,309	2,825
Prices			
Coal	US\$/tonne	15	17
Electrical energy	US\$/MWh	20	22
Unit costs¹			
Coal	US\$/tonne	3	4
Electrical energy	US\$/MWh	9	10

¹ Unit costs: Cost of sales divided by sales volumes.

The Energy Division's third-party revenue decreased 3.4%, or US\$7 million. The fall in coal sales to third-parties adversely impacted revenue by US\$32 million; a 9% fall in sales volumes and a 15% lower average US dollar price. These impacts were partially offset by a US\$24 million increase in electricity sales, due to higher demand and improved generation capacity to support third-party sales. The US\$27 million reduction in the Division's sales revenue to Group entities is due to the negative impact of the devaluation of the Kazakhstani tenge.

The US\$42 million decline in Cost of sales was driven by the impact of the devaluation of the Kazakhstani tenge on input material costs. Unit cost of sales for electricity fell 14%.

The US\$19 million decline in Distribution costs was largely a result of lower coal sales volumes.

The Division's Underlying EBITDA increased US\$36 million to US\$213 million. The total contribution of the Energy Division to the Group's Underlying EBITDA in 2009 was 14.6% (2008: 4.3%).

Logistics Division

In millions of US\$	Years ended 31 December		2009 vs 2008
	2009	2008	
Revenue	157	229	(31.4)%
Third parties	53	107	(50.5)%
Inter-segment	104	122	(14.8)%
Cost of sales	(106)	(152)	(30.3)%
Gross profit	51	77	(33.8)%
Gross margin	32.5%	33.6%	
Distribution costs	-	-	n/a
Selling, general and administrative expenses	(25)	(47)	(46.8)%
Net other operating (expense)/ income	(2)	2	(200.0)%
Operating profit	24	32	(25.0)%
Operating profit margin	15.3%	14.0%	
Depreciation, amortisation and impairment	(15)	(18)	(16.7)%
Underlying EBITDA	39	50	(22.0)%
Underlying EBITDA margin	24.8%	21.8%	

Key facts

		Years ended 31 December	
		2009	2008
Sales volume			
Third party freight forwarding	'000 t	5,950	9,942
Railway line repairs	km	198	408
Prices			
Freight forwarding	US\$/tonne	0.84	0.63
Railway line repairs	US\$/'000km	176	215
Unit cost¹			
Freight forwarding	US\$/tonne	0.26	0.31
Railway line repairs	US\$/'000km	161	204

¹ Unit costs: Cost of sales divided by sales volumes.

The US\$54 million reduction in third-party revenue was driven largely by a reduced volume of railway repairs. The adverse effect of the devaluation of the Kazakhstani tenge resulted in a US\$18 million decline in revenue from sales to Group entities despite higher volumes.

Cost of sales decreased by US\$46 million mainly due to a lower volume of railway repairs.

Selling, general and administrative expenses decreased US\$22 million mostly due to lower labour costs and consulting services.

The Division's Underlying EBITDA decreased US\$11 million to US\$39 million. The total contribution of the Logistics Division to the Group's Underlying EBITDA in 2009 was 2.7% (2008: 1.2%).

Other Non-ferrous Division

In millions of US\$	From November 2009
Revenue	55
Third parties	55
Inter-segment	–
Cost of sales	(39)
Gross profit	16
Gross margin	29.1%
Distribution costs	(2)
Selling, general and administrative expenses	(11)
Net other operating expense	(3)
Operating profit	–
Operating profit margin	–
Depreciation, amortisation and impairment	(6)
Underlying EBITDA	6
Underlying EBITDA margin	10.9%

Key facts

		From November 2009
Sales Volumes		
Saleable copper cathode	'000 t	2,778
Saleable cobalt concentrate	'000 t	1,169
Prices		
Saleable copper cathode	US\$/tonne	6,521
Saleable cobalt concentrate	US\$/tonne	25,119
Unit Costs¹		
Saleable copper cathode	US\$/tonne	4,600
Saleable cobalt concentrate	US\$/tonne	20,587

¹ Unit costs: Cost of sales divided by sales volumes.

The information for the Other Non-ferrous Division (formerly the businesses of CAMEC), relates to the two months ended 31 December 2009. The acquisition of CAMEC was effective from 9 November 2009.

In the period, the main revenue and Underlying EBITDA generating businesses of the Division were the copper and cobalt operations in the DRC and a logistics business.

The total contribution of the Other Non-ferrous Division to the Group's Underlying EBITDA in 2009 was less than 1%.

Corporate

Taxation

With effect from 1 January 2009 the Republic of Kazakhstan introduced a new Tax Code including, amongst other measures, a gradual reduction in the rate of Corporate Income Tax ('CIT') from 30% in 2008 to 20% in 2009, 17.5% in 2010 and 15% thereafter, the abolition of Royalties in conjunction with the introduction of MET, and revisions to the basis of calculation of Excess Profits Tax ('EPT'). In November 2009, in response to the adverse changes in the global economic environment, the reduction in the CIT rate was postponed and the 20% CIT rate was extended for the period from 2010 to 2012. MET rate increases were similarly postponed.

The Group's income tax expense for the year ended 31 December 2009 was US\$377 million (2008: US\$1,143 million), an Effective Tax Rate of 26.2% (2008: 29.9%).

The Group's Effective Tax Rate of 26.2% included the effects of changes to the applicable CIT rate and to the tax depreciation rules in Kazakhstan enacted in November 2009. Excluding the effect of these changes in the tax legislation, the Effective Tax Rate was 25.1%. This was higher than the applicable CIT rate in Kazakhstan of 20% mainly due to the effects of withholding taxes on dividends and of EPT in Kazakhstan.

Mineral Extraction Tax, not being a tax on profits, does not form part of the income tax expense and is reflected in Cost of sales.

Liquidity

Cash and cash equivalents reduced 66.7% during 2009 to US\$830 million (2008: US\$2,493 million). Gross Available Funds decreased by 63.1% in the same period to US\$1,021 million (2008: US\$2,768 million).

Overview

The following table provides a summarised cash flow statement for the years ended 31 December 2009 and 31 December 2008:

In millions of US\$	Years ended 31 December		2009 vs
	2009	2008	2008
Net cash generated from operating activities	1,209	2,766	(56.3)%
Net cash used for investing activities	(2,105)	(1,919)	9.7%
Net cash used for financing activities	(644)	(854)	(24.6)%
Net changes in cash and cash equivalents	(1,540)	(7)	21,900.0%
Cash and cash equivalents at beginning of year	2,493	2,548	(2.2)%
Exchange loss on cash and cash equivalents	(123)	(48)	156.3%
Cash and cash equivalents at end of year	830	2,493	(66.7)%

Net cash generated from operating activities

The Group generated cash of US\$1,209 million (2008: US\$2,766 million) from operating activities, a decrease of US\$1,557 million. The lower operating cash inflow is predominantly due to the lower average commodity prices which adversely impacted operating profit. This was partially offset by a significant reduction in taxes paid in 2009 of US\$464 million (2008: US\$1,163 million), a result of the decrease in the Group's operating profit and the reduction in Kazakhstani CIT rates.

Net cash used for investing activities

In 2009 the Group utilised US\$2,105 million for investing activities (2008: US\$1,919 million), an increase of US\$186 million, or 9.7%. Investing activities consisted largely of investments in subsidiaries and associates namely CAMEC for US\$917 million net of cash acquired and a 25% interest in Shubarkol Komir JSC for US\$200 million less 25% of net debt. Capital expenditure on property, plant and equipment amounted to US\$912 million, a reduction of 38.3%.

Net cash flow used for financing activities

The Group used cash resources of US\$644 million for its financing activities during the year ended 31 December 2009, primarily for the payment of dividends to shareholders of US\$322 million and net borrowings repayments of \$308 million.

Financial Review continued

Capital expenditure

During the year ended 31 December 2009 the Group's capital expenditure amounted to US\$1,147 million (2008: US\$1,294 million), a decrease of US\$147 million, or 11.4%.

'Capital expenditure' equates to additions of property, plant and equipment and intangible assets, excluding goodwill, which differs from the 'Capital expenditure spend', which represents the cash outflows to acquire property, plant and equipment and intangible assets.

We have enhanced the presentation of capital expenditure, designating it as either 'expansionary' or 'sustaining'.

'Expansionary' capital expenditure refers to investments made to drive future growth through increasing production capacities, and may include the construction or purchase of property, plant and equipment or the upgrade or expansion of existing facilities.

'Sustaining' capital expenditure refers to investments designed to keep existing operations running at their current levels and may include major cyclical capital repairs or the replacement of existing property, plant and equipment.

The table below shows the Group's capital expenditure:

In millions of US\$	Years ended 31 December	
	2009	2008
Ferroalloys	248	330
Expansionary	147	190
Sustaining	101	140
Iron Ore	225	278
Expansionary	141	187
Sustaining	84	91
Alumina and Aluminium	356	502
Expansionary	253	339
Sustaining	103	163
Energy	281	136
Expansionary	257	106
Sustaining	24	30
Logistics	24	48
Expansionary	22	33
Sustaining	2	15
Other Non-ferrous	6	-
Expansionary	6	-
Sustaining	-	-
Corporate	7	-
Expansionary	7	-
Sustaining	-	-
Total	1,147	1,294
Expansionary	833	855
Sustaining	314	439

In response to signs of a market recovery for its principal commodities the Group reappraised its previously deferred capital expenditure projects. The Group's major projects are detailed in the tables below. The Group anticipates that securing the necessary financing is a requirement for delivering its capital expenditure programme.

Capital expenditure projects

In millions of US\$	Date of project approval	Estimated total cost	Project status	Date of commissioning ¹
Ferroalloys				
Expansion/replacement of ferroalloy smelting capacity (Aktobe) ² – 440 ktpa	2008	590	In Progress	2012
Expansion of ferroalloys smelting capacity (Aksu) – 460 ktpa	2008	540	Deferred	TBD
Alumina and Aluminium				
Aluminium smelter – Phase 2: 125 ktpa	2006	260	In Progress	2010
Anode production plant	2008	240	In Progress	2011
Alumina production expansion by 300 ktpa ³	2007	305	In Progress	2011
Energy				
Overburden stripping equipment	2005	85	Completed	2010
Construction of power unit 2 – 325 MW	2007	230	In Progress	2011
Reconstruction of power unit 6 – 325 MW	2009	230	In Progress	2012
Other Non-ferrous				
Expansion of copper (oxide) production – 75 ktpa/cobalt	2009	190	In Progress	2013
Exploration	2009	115	In Progress	2013
Expansion of copper (sulphide) production – 60 ktpa copper contained concentrate	2009	150	In Progress	2013

¹ Completion of construction.

² Approximately 270 ktpa of ferroalloy smelting capacity may be retired after the new capacity is operational.

³ 100 ktpa completed – current capacity 1.6 mtpa; 100 ktpa in progress; 100 ktpa deferred.

Projects under review

In millions of US\$	Date of project approval	Estimated total cost
Iron Ore		
Pelletiser – 5 mtpa – and DRI/HBI plant – 1.4 mtpa	2008	850
Concentrating factory expansion – 16 mtpa ore	2008	440
Mine expansion – 10 mtpa ore	2008	535
Construction of a conveyor complex at Kachar	2009	180
Energy		
Construction of 2 x 600 MW power units	2008	1,260
Mine expansion – 5 mtpa coal	2008	230

The Group's capital expenditure programme (including the Other Non-ferrous Division) totals US\$5.8 billion comprising of expansionary and enhancement projects which are 'in progress' or 'under review'. Deferred projects amount to US\$0.5 billion.

For the full year 2010, total capital expenditure is expected to be approximately US\$1.5 billion, including sustaining capital expenditure of around US\$0.4 billion.

Capital expenditure on BML remains contingent on the project proceeding. This is dependent upon certain outstanding approvals and the Government of Brazil proceeding with the construction of a rail link.

With the announcement of the proposed acquisition of Chambishi Metals PLC, a Zambian copper and cobalt producer, the Group stated its plans for capital expenditure of about US\$80 million. The capital expenditure would be for new and upgraded production facilities, scheduled to be completed by the end of 2011, and increase Chambishi's copper production capacity to 55 kt per annum of LME Grade A copper cathode.

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. 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 pellet. This contract expires in 2017. Pricing is determined by reference to published price indices for iron ore concentrates and pellets.

Across a number of customer contracts some reduction in contractual volumes has taken place to date, and this may continue depending on market conditions.

Sustainability Review

Introduction

At ENRC, sustainability is about managing the total impact of the business for the long term.

We aim to grow our business while maintaining our commitment to respecting the environment, providing safe and healthy workplaces and making a positive contribution to the societies where we operate.

As ENRC grows, sustainability is a pathway that enables us to transform our business and build true competitive advantage. We recognise that successful businesses of tomorrow are addressing key sustainability challenges today, from resource efficiency to community health. Such vision protects our business going forward, and allows us to contribute to stronger economies and communities in the emerging markets where we operate. Investment in sustainability initiatives brings long-term benefits including improved management of risk, efficiencies in operating costs, and attracting and retaining the best employees.

Our five key Sustainable Development ('SD') priorities are:

- To consume less to produce more;
- To integrate SD into investment decision-making;
- To make reputation and brand one of the Group's principal assets;
- To build key stakeholder relationships in all countries in which we operate; and
- To create leadership and embed the behaviours of SD values across the Group.

ENRC has committed to improving sustainability performance over the long term. We already operate to the standards consistent with best practice in Kazakhstan, and as we develop our international presence, we strive to achieve best practice international standards across our operations, including safety, health and environment.

The Group reports SD performance in compliance with local legislation and international best practice. In 2009 we continued to develop a transparent reporting system based on the Global Reporting Initiative ('GRI') Metals and Mining Supplement and the ICMM SD Framework. Internal reporting in compliance with GRI environmental indicators expanded by 60% in 2009. We plan to issue SD reporting which adopts GRI indicators and is subject to external assurance in 2011.

Working with stakeholders

Fortunately we are not alone in meeting the challenges of sustainable development. In all regions where we operate ENRC is committed to working in partnership with local government, public NGO's and community representatives. Our flexibility and ability to engage with diverse stakeholders creates competitive advantage and brings benefits to society. We plan to develop a more organised approach to stakeholder engagement.

For several years ENRC has engaged with local and international SD initiatives. We were the first Kazakhstani company to sign up to the UN Global Compact and have joined the Extractive Industry Transparency Initiative. In 2003 the Group became a founder member of the Kazakhstan Business Council for Sustainable Development ('KBCSD'), a regional partner of the World Business Council for Sustainable Development ('WBCSD').

Our extensive experience in working with governments focuses on supporting the development of a strong legal framework and sharing industry best practice with our partners. For example, through membership of the International Chromium Development Association ('ICDA'), we are able to bring international expertise and

skills to the environment of Kazakhstan. In recognition of our contribution to state development, ENRC's Kazakhstan ferroalloys business was awarded Best Industrial Enterprise in 2009.

ENRC's collaboration with local government and administrations in Kazakhstan is a model of successful public-private partnership development. In 2009 we renewed our cooperation memoranda with regional governments aimed at improving the welfare of the community.

In our engagement with all stakeholders, including government, we are committed to transparency and respecting human rights. In 2009 ENRC was placed second in the Standard & Poor's Kazakhstan Corporate Transparency Index.

In 2009 we implemented a revised procurement policy, purchasing policy and procedure framework, which aims to create a more transparent purchasing policy for our business partners and suppliers.

Governance

The Group believes it is important to have a high standard of governance with clear line-of-sight objectives in order to achieve its SD strategy. We are implementing gradual changes in our governance system to effectively manage the sustainability agenda. We are working to build an integrated SD management system that provides a unified approach, while also taking into account specific aspects at each of our sites across Kazakhstan, Russia, China, Brazil and Africa. Corporate safety and environmental standards are a non-negotiable part of the integration process.

The Health, Safety, Environment and Sustainability ('HSES') Committee of the Board of Directors, which includes the Chairman and CEO, is responsible for sustainability strategy and performance. In 2009 the Committee met twice, and focused on:

- Safety management and performance, including a new Safety Improvement Programme.
- New Environmental Strategy for 2010–2012.
- HSES Risks and Action Plans.

The Committee's work is supported by the HSES Working Group which comprises the Divisional Heads of Environment, Health and Safety, Human Resources and Social Policy. The Working Group has responsibility for monitoring HSES programme implementation, changing regulatory requirements, the development of action plans and proposals for operational improvements.

In 2009 sustainability risk management was incorporated into the Group's central risk management governance structure. The focus is to establish procedures to effectively manage SD risks at the divisional level.

The HSES Committee has approved several policies and procedures to set controls for material SD risks. In 2009 we developed and approved a new Environmental Strategy and launched a new Safety Improvement Programme. A Human Resource Management Policy, a Succession Planning Policy and a Climate Change Policy were also developed and implementation is currently in progress.

Our goals for 2010 are to:

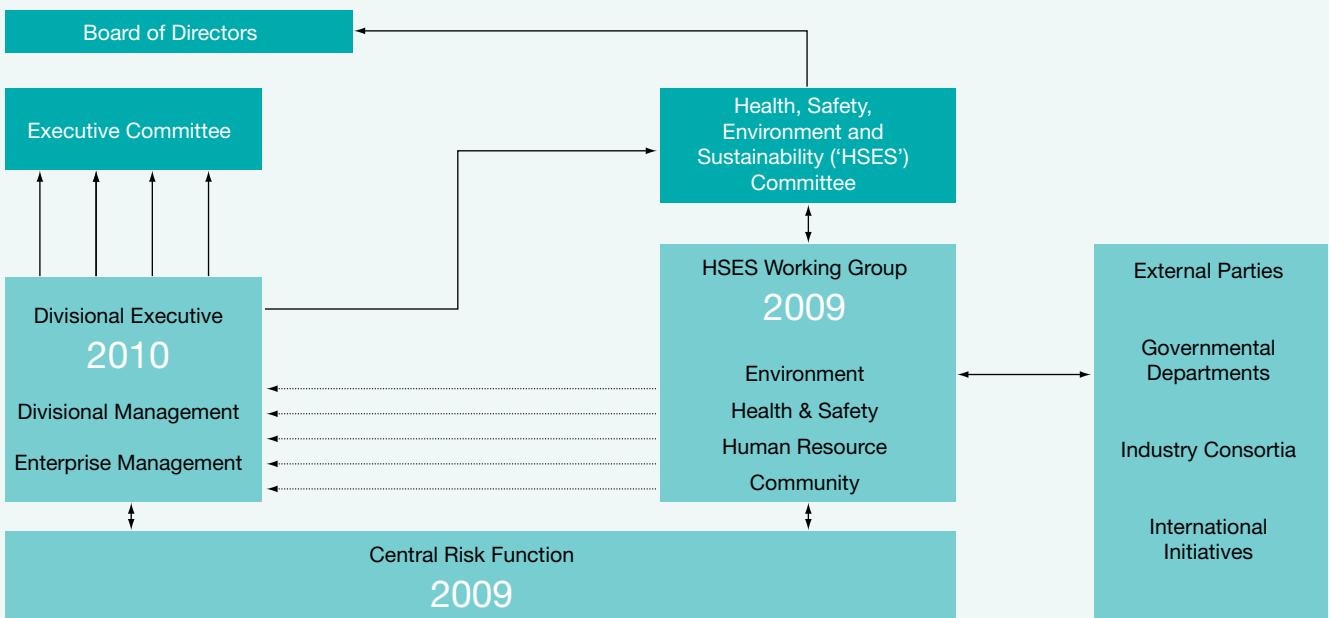
- Set formal SD functions and accountability at divisional level;
- Develop sound data and reporting practice in line with international best practice;
- Strengthen the SD management team with professionals with SD expertise;
- Incorporate new SD site management system into overall corporate governance system; and
- Integrate sustainability governance into acquisition process by identifying environmental, social and governance risks ahead of investments in new assets.

Health and Safety

Safety

Safety has continued to be a key area of focus during 2009. ENRC has adopted a vision of zero injuries, based on the belief that all injuries are preventable. We continually seek new safety improvement opportunities to enable us to fulfil our ambitious safety policy, and to set a sustainable safety system integrating all company operations in achieving mutual goals.

Progress in the System of Governance



Sustainability Review continued

Safety is a priority to the business and a Key Performance Indicator as detailed on page 12. As it is a business priority key management are compensated on safety performance.

Regrettably, there were 12 fatal accidents at ENRC sites during 2009 (2008: 9). We have investigated each of these incidents, learned lessons and implemented changes to how we operate. ENRC remains committed to reducing to zero the number of lives lost at ENRC operations.

Safety performance

	2009	2008
Lost Time Injury Frequency Rate ('LTFIR') ¹	0.63	0.68
Fatal accidents	12	9
Fatal Injury Frequency Rate ('FIFR') ¹	0.12	0.08

¹ Measured per million hours worked.

Analysis of the causes of fatal accidents showed the following:

Fatal accidents	2009	2008
Falling	2	3
Moving machinery	4	3
Electric current	2	2
Falling objects	2	1
Blasting operations	1	0
Road accidents	1	0

ENRC's Board and top management continue to champion the strategic safety project initiated in 2008 in partnership with DuPont. Following an initial full safety management evaluation, we introduced new commitments and will develop new safety management systems. In 2009 we started a pilot project at Kazchrome, which aims to establish a culture of safe working, including developing a formal safety performance appraisal system with specific, measureable objectives for all managers. Based on learning from the pilot, we will start to roll out a new corporate safety programme across the Group's operational sites in 2010. It is anticipated that it will take three more years to complete full implementation.

In 2009 ENRC implemented an internal corporate accident investigation procedure. This led to the introduction of a special accident investigation team consisting of safety professionals and technical experts. Independent corporate investigation enables us to find the root causes of each accident, to develop efficient non-compromising preventative measures and to monitor action taken. We believe these new procedures will support improvements in prevention and reoccurrence of accidents.

ENRC has always believed in equal safety standards for all our sites, regardless of the country or the nature of the operations there. This approach unites ENRC at operational and corporate levels.

Looking ahead

Goals for safety in 2010 will include:

- Ongoing roll out of the new safety management system across the Group.
- Involving employees and contractors to share responsibility for safety based on honesty, openness and mutual trust.
- Development of safety performance appraisal systems and implementation of developed and approved corporate safety standards. Further develop reporting procedures to align against international norms.
- Implementing the ENRC safety vision at our newly acquired operations in Africa. Our first step should be to ensure standardised reporting and that local legal standards are being met. Our strategy will be to use progressive improvement at each

site through implementation of effective safety tools such as our Fifteen Corporate Safety Standards, behavioural audits and our Internal Accident Investigation Procedure.

Health

A key aspect of our safety management system is a focus on injury and illness prevention, to keep employees safe and healthy in the workplace. In addition, for many years ENRC has provided employees with health and medical programmes on a voluntary basis, and we believe the programmes we operate are amongst best practice in the Republic of Kazakhstan. Our health care provision includes disease prevention centres as well as sporting and other recreational facilities.

In Kazakhstan we have worked closely with local communities to develop an effective HIV/AIDS programme based on preventative care, detection, support and treatment.

Looking ahead

Goals for occupational health improvement in 2010 will include:

- Evaluation of achievements to date of health and medical programmes.
- Development of a new Corporate Health Management Roadmap.
- Drawing on our experience in Kazakhstan, and building on existing local programmes, to deliver locally relevant health care to our new employees in regions of Africa.

Social Policy

The Group has a solid reputation in the Republic of Kazakhstan for being a socially orientated and responsible business. It works closely with the Kazakhstani Government to implement governmental agreements, programmes and initiatives related to implementing the Law of the Republic of Kazakhstan 'On Social Partnership'.

Our Whistle Blowing Policy, adopted in 2007, aims to provide early indications of possible corruption.

We recognise the importance of respecting and protecting human rights, which becomes more challenging as we move into diverse locations. Open dialogue with local communities, employment procedures, preventing discrimination – all these will contribute significantly to our addressing human rights issue in the long term.

The social policy focuses on two key areas: Employees and Communities.

Employees

ENRC is one of the largest employers in the Republic of Kazakhstan. During 2009 the Group employed an average of 70,320 employees. As a consequence, our success as a Group depends significantly on our ability to attract, retain and motivate key management and employees and this is an area of focus for senior management.

As part of the development of a corporate culture throughout the organisation, members of senior management regularly visit the Republic of Kazakhstan to meet with employees at the operational sites.

The Group benefits from good labour relations and has not experienced any material strikes or stoppages at any of its operating sites since it acquired its operating assets. The majority of our employees in the Republic of Kazakhstan are members of trade unions and the Group makes significant efforts to engage and work with the trade unions. As a result, the Group has well-balanced industrial agreements and these serve as a basis for the collective agreements each Group company has signed with employees. In

addition to the social rights and benefits guaranteed by the Kazakhstani Labour Code, these agreements provide for free medical treatment, loans at favourable mortgage rates, training of employees and their children and preferential packages to sanatoriums, recreation centres and children's recreation camps. Special social programmes are developed for both young people and pensioners.

Throughout the current economic downturn, ENRC has worked hard to preserve job security at our operations. Some changes had to be made, for example to working hours and holidays, but we managed to adapt to the economic environment without reducing our workforce, and we commit to keeping this goal at the forefront of our minds. We have continued to provide the same standard of social package for employees, including our housing programme which provides interest free loans to employees.

A highly qualified and skilled workforce is at the heart of any successful business. Over the past five years ENRC has launched a number of educational and training projects. ENRC implemented a long-term Talent Management Programme ('TMP'). Within the framework of the TMP, ENRC started the Personnel Reserve Programme for 2009–2012. The main aim is to ensure continuity, attract and retain talented staff, and train staff for different levels within the Company, including top management. Components of the programme are Replacement Planning, Succession Planning and Talent Management.

The ENRC training programme includes: short-term, long-term and executive MBA studies; courses to support cost-effective operations, such as training for second and allied skills improvement upgrades; and courses to support corporate goals such as leadership and communication training. Cutting edge courses such as the UK National Examination Board on Occupational Safety and Health ('NEBOSH'), International Environmental Management and Assessment ('IEMA') certification study are also an important part of HSES staff development, and in addition we support educational institutions and provide scholarships for employers and the community.

In 2009 an estimated 40% of the total workforce was involved in the training programme (2008: 30%). Our efforts were recognised when the ENRC programme on employee development was named as the best HR project in Kazakhstan for the last five years.

As Kazakhstan draws strength from its diversity, we draw strength from our aptitude at capitalising on the skill, knowledge and qualities of the highly diverse nationalities and cultures that today form ENRC. The Group is committed to attracting a globally mobile, culturally diverse workforce to its African operations while developing widely applicable skills and technical capabilities of employees at all levels. As a leader in the mining sector of Kazakhstan, ENRC has a pool of talent available to run its international operations safely and effectively. The combination of talent from our Kazakhstan operations and the regional knowledge and experience of the existing management teams, will enable the Group to run its international operations effectively and safely.

Looking ahead

During 2010 the areas of focus will include:

- Continuation of the Talent Management Programme, including a rotation scheme aimed at enhancing employees' skills.
- Improvements to business processes in the personnel management system, including enhanced systems for recruitment and remuneration planning, and development of a Corporate University.

- Development of new Industrial Agreements within the framework of collaboration of industrial commissions with the trade unions of the mining and metallurgy industry, coal and electric power industry in Kazakhstan.
- Ongoing work to improve feedback on the Code of Conduct, to improve identification and prevention of Code violation.

Communities

ENRC operating sites are often located in remote areas of the Republic of Kazakhstan and frequently the Group is the only industry operating in that area. Maintenance of a responsible social contract with these communities in Kazakhstan is an established practice in ENRC because many of the towns and cities rely on the infrastructure development provided by the Group. Each year the Group signs agreements with regional Governors in the Republic of Kazakhstan and provides financial support.

In 2008 ENRC established the ENRC Komek Corporate Foundation, a non-commercial charitable organisation which finances cultural, educational and other social programmes in Kazakhstan.

The Foundation's long-term focus is on the implementation of programmes aimed at supporting ENRC's own workforce, such as improvements to housing conditions, professional staff training and education, as well as programmes aimed at improving the welfare of the general public, such as development of scientific, technical and artistic creativity, protection of public health, supporting children's homes, schools and higher education institutions, as well as environmental protection.

The Group expenditure for Community Social Investment in 2009 amounted to US\$37 million (2008: US\$31 million).

Environment

ENRC management is committed to reducing any negative impacts of Group operations on water, air and land and to the efficient use of resources.

In 2009 the Group continued to make progress in raising environmental standards towards international norms. ISO14001 certification was completed for the main divisions in Kazakhstan and Russia. All new operations are required to be certified to ISO 14001 within three years of joining the Group.

A new environmental strategy has been developed for 2010. This new approach links closely to the core business development plans. It will include investment in installation of modern equipment, which is expected to enhance productivity, improve energy efficiency and to generate substantial cost savings, particularly for key input materials. The new equipment will also bring significant environmental and safety improvements.

A new framework for measuring our performance in relation to waste management, air emissions and water discharges is currently being completed. This includes a new environmental database with new performance indicators, benchmarks and targets, in a move towards common international approaches for reporting.

We have identified seven key areas of our environmental performance to report on: climate change, energy, emissions, water, waste, toxics and biodiversity.

Climate Change

ENRC recognises the importance of the global issue of climate change, and the role that our industry has in responding to the challenges it brings. As one of the largest producers of energy in Kazakhstan, ENRC appreciates its responsibility to meet challenges of doing business in a carbon-constrained future.

Sustainability Review continued

For several years ENRC has worked to improve the energy efficiency of operations, and during the past year specific steps were taken towards ensuring that a carbon strategy is embedded into core business activities. In 2009 a full Greenhouse Gas ('GHG') footprint was conducted of the Kazakhstan businesses and for 2010 the aim is to develop a carbon roadmap with the goal of emission reduction through energy saving and efficiency. As a Group committed to growth, we are unlikely to be using less energy in the foreseeable future, therefore we need to focus on energy efficiency initiatives that will allow us to do more with less.

In March 2009 Kazakhstan ratified the Kyoto Protocol as an Annex 1 country under the United National Framework Convention on Climate Change ('UNFCCC') and has reconfirmed its intention to become an Annex B country under the Kyoto Protocol. Although the Kyoto Protocol expires at the end of December 2012, we expect the post Kyoto period (2013–2020) to present challenging emissions reduction targets for Kazakhstan organisations. Our Group is fully engaged in the process to support Kazakhstan in meeting its obligations towards the international community in this regard.

Energy

In 2009 ENRC's Kazakhstan and Russian operations consumed 275,000 tera joules of energy, of which about 75% was sourced from coal. This considerable energy requirement represents both a demand on natural resources and a significant operational cost.

In response, ENRC has begun developing an energy management policy, to include an energy consumption inventory. For 2010 we are planning initiatives on energy efficiency improvements for machinery and on conserving energy currently lost during industrial processes.

Emissions

While we foresee the Group's production levels continuing to grow, ENRC recognises the need to reduce emissions, so our focus is on reducing the intensity of our operations' emissions. The Group's strategy for reducing emissions is a two-part approach: gradually replacing older technology with new technology that complies with international air emissions standards, and, for older technology, maintaining lower levels, reducing incrementally where possible.

Examples from 2009 include the upgrade of baking equipment in iron pellets production, which enabled production to increase by 25% while reducing nitrogen oxide emissions by 15%, and dust emissions by 12%. At the Pavlodar Power plant, a technology upgrade to near BAT ('Best Available Technology') standards led to a

Three examples of new technology boosting environmental performance

New facility	Date	Impact
New aluminium smelter ('KAS')	2007–2009	In full compliance with BAT Gas cleaning efficiency = 99.9%
New Smelter at Aktobe, TNC Kazchrome	2008–2012	In full compliance with BAT Emissions reduction is 2.4 times, in comparison with existing furnace
New energy capacities, EEC	2009–2012	Ash emissions reduction of up to 14 thousand tonnes per year

drop in nitrogen oxide emissions of 30%, and a reduction in dust emissions of 66%.

Water

With sites operating in the dry deserts of Kazakhstan, ENRC is mindful of water scarcity challenges. We are committed to maximising water use efficiency and minimising pollution. Water recycling is an effective way to save water and to minimise our impact on the environment. ENRC has water conservation programmes which allowed us to further increase recycling and to decrease fresh water intake.

For ENRC operations in Kazakhstan and in Russia fresh water intake is only 3% out of the total amount of water used. 59% of water is returned into natural sources, and 38% of the water is recycled.

Waste

ENRC is committed to reducing overall costs of production and reducing our environmental footprint by reducing and recycling waste produced by our operations.

In 2009 we completed the waste reduction programme for the ferroalloy production cycle at Kazchrome. Following a five year investment of US\$165 million, 14m tonnes of waste was processed, and approximately 45 hectares of land saved. At the site, 100% of newly produced slag (a by-product of smelting ore) is processed; and a programme is in place to process historical slag stored at waste land fields.

Toxics

ENRC adopted a new Chemical Policy in 2009. Our strategic approach is to develop and implement a specific Toxic Pollutants Reduction action plan. Part of this work was an inventory of Polychlorinated Biphenyls ('PCBs') and other toxic chemicals. The Republic of Kazakhstan has committed to cease utilising equipment with PCBs by 2025, and to eliminate PCBs by 2028. ENRC is working closely with the government to achieve these goals.

Biodiversity

ENRC is committed to active stewardship of biodiversity. Our strategy is to involve local stakeholders in developing and implementing specific biodiversity action plans at each site.

Looking ahead

In 2010 we will implement our new environmental strategy and strive to continuously improve our environmental performance. The strategy focuses on new investment and modernisation projects' eco-efficiency, including evaluating such aspects as energy, resource consumption and overall impact on climate change.

In 2010 we will focus on:

- Improving the transparency of environmental disclosures including development of quantitative targets for environment performance;
- Developing appropriate capacity and capabilities within the organisation and establishing levels of responsibility on HSES reporting;
- Implementing a carbon road map and action plan, and undertaking an energy efficiency study;
- Incorporating eco-efficiency indicators and assessment including GHG emissions into investment decision making; and
- Making commitments for new construction projects to achieve improvements in environmental performance and specifically in energy efficiency, taking into consideration both economic and environmental aspects.