

## Business Review continued

### Corporate Responsibility Review

#### Introduction

We believe that corporate responsibility means ensuring that we conduct our operations in a way that brings benefits to our employees, customers, wider stakeholders and the communities in which we operate. We believe that it encompasses elements such as trust and reliability and the process of reducing costs and identifying and mitigating risks within the corporate strategy. For us, sustainable development is about managing the total impact of our business for the longer term.

We are committed to improving our performance over the long term so as to operate in line with international expectations and mining practices. We use the International Council for Mining and Metals (ICMM) to guide our action plans as we move towards international standards. We already operate to the standards consistent with best practice in the Republic of Kazakhstan, but as we develop our international presence there are increased expectations that we move away from emerging market standards to achieve international standards. This is an ongoing objective for the Group and one that will continue to remain in focus for the foreseeable future.

#### 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 sustainable strategy. The Health, Safety, Environment and Sustainability Committee (HSES) is a Committee of the Board and was established in late 2007. The Committee is chaired by Dr Johannes Sittard, the Chief Executive Officer. The other members include two non-executive Directors, Mr Eduard Uteпов and Mr Abdraman Yedilbayev, and Mr Felix Vulis, the Chief Operating Officer of the Republic of Kazakhstan.

During the year the HSES Committee met three times. In particular the Committee focused upon:

- formulating a policy on health, safety and environmental issues, with a particular emphasis on health and safety;
- monitoring the development of the governance framework in the Republic of Kazakhstan and strengthening the divisional reporting lines; and
- initiating a review of areas of corporate responsibility where new or revised policies are required.

The HSES Committee is supported by the HSES Working Group which comprises the Group Heads of Environment, Health and Safety, Human Resources and Social Policy. The Working Group has responsibility for monitoring HSE programme implementation, changing regulatory requirements, the development of action plans and proposals for operational improvements. During the year new terms of reference for the Working Group were adopted.

#### Below

Music students at the Metallurgist Cultural Centre, Kazchrome, Aktobe. Dombra is a traditional two stringed lute instrument of Central Asia

#### Right

Central maintenance control room at EEC, Aksu.

#### Second right

Employees of Aktobe Ferroalloy Plant, Kazchrome, Aktobe

#### Far right

Football game, Zhairem GOK Sports Centre, Zhairem, Karaganda region



The responsibilities of divisional heads for sustainable issues were increased during the year to facilitate wider implementation of new policies and standards and develop consistent standards of reporting to senior management. There was a particular focus on responsibility for health and safety issues in accordance with the implementation of new safety standards across all operating sites.

The Board adopted a Code of Conduct during 2007 which sets the required standards of behaviour for each employee throughout the Group. In addition, a number of policies including a whistleblowing policy and a new procurement policy were established and rolled out during 2008 and early in 2009 with the intention of reinforcing the high ethical standards which the Group expects of all its employees.

ENRC was the first organisation in the Republic of Kazakhstan to become a signatory to the UN Global Compact and this has provided a framework for greater interaction with other corporations in the Republic of Kazakhstan. ENRC is also an active member of the Kazakhstan Business Council for Sustainable Development which was formed in line with the World Business Council for Sustainable Development and progress continues to be made in developing the remit of the Business Council in the Republic of Kazakhstan.

#### Key areas for HSES governance developments in 2009

Our goals for 2009 are to:

- continue to monitor the implementation of the new safety management programme and performance under the programme at the nominated operational sites;
- incorporate sustainable development risk management into the governance structure;
- further strengthen the divisional reporting of performance to the HSES Committee and achieve consistency in the provision of key management information; and
- establish a framework to set measurable targets for selected sustainable development indicators in line with GRI/ICMM.

#### Health and safety

##### Safety

Mining is a hazardous industry and the failure to adopt high standards of health and safety impacts on both our employees and the communities in which we operate. Safety was identified as a key area of focus during 2007 and has continued to be so during 2008.

There were nine fatal accidents at ENRC sites during 2008 (2007: 15). Whilst any fatality is a major disappointment to the management team, we believe that the significant reduction in fatal accidents is an indication of the impact of the increased level of focus on safety within the Group. This provides us with an added incentive to continue



## Business Review continued

### Corporate Responsibility Review continued

raising standards with the intention of reducing both the number of incidents and the number of fatal accidents in line with our stated goal of zero accidents.

#### Safety performance

	2008	2007
Lost Time Injury Frequency Rate (LTIFR) <sup>1</sup>	<b>0.68</b>	0.58
Fatal accidents	<b>9</b>	15
Fatal Injury Frequency Rate (FIFR) <sup>1</sup>	<b>0.08</b>	0.13

<sup>1</sup> Measured per million hours worked

Analysis of the causes of fatal accidents showed the following:

Fatal accidents	2008	2007
Falling	<b>3</b>	2
Moving machinery	<b>3</b>	9
Fire	<b>2</b>	0
Falling objects	<b>1</b>	2
Other causes	<b>0</b>	2

During the year the Group engaged the services of DuPont in order to carry out a full safety management evaluation at a number of our operational sites in the Republic of Kazakhstan. The work carried out by DuPont included detailed investigation of safety standards, quality of equipment and cultural and behavioural attitudes towards safety.

DuPont identified a strong commitment at senior management and divisional management level to improve safety at operational sites. In addition, comprehensive training programmes and physical inspection programmes were operating and safety departments were well organised and staffed by well qualified people. There were established safety procedures and several locations had been awarded or were in the process of applying for OSHAS 18001 accreditation. However, cultural and behavioural attitudes have a significant impact on the number of accidents and DuPont identified that the majority of accidents at ENRC sites were due to behavioural issues or as a result of violations of safety rules.

As a result of the DuPont findings, the Safety Policy was reviewed and the following changes made:

- The goal of zero fatalities was changed to one of zero injuries. Whilst management recognises that this is extremely difficult to achieve in a hazardous industry such as mining, they also believe that implementing this objective will raise aspirations amongst the workforce to improve safety at all levels.
- A clear statement was issued that safety is deemed to be equal in priority to production and other business parameters and that safety principles will not be sacrificed for business gain.

**Below**  
Train engineer at the underground mine, Donskoy GOK, Kazchrome, Khromtau

**Second right**  
Employee checking the calcination kiln, AoK Pavlodar

**Right**  
Children's hockey team, Serov, Russia

**Far right**  
Classical ballet students at the Metallurgist Cultural Centre, Kazchrome, Aktobe



In addition, DuPont recommended the introduction of corporate safety standards to be used by each operating company by the use of a formal risk assessment standard to be applied at all locations. The risk assessment standard would be used to reduce the level of risk in the operation and set a maximum acceptable level of risk for any activity.

In order to develop an established culture of safe working, management selected Kazchrome to function as a pilot site where new levels of safety management will be introduced. This second stage involves implementing new safety standards at all levels within the plant and the development of a formal safety performance appraisal system with specific, measurable objectives for all managers and the achievement of the safety objectives to be linked to bonus, salary and promotion.

It is intended that once sustained change in behavioural attitudes towards safety standards has been established in Kazchrome, these practices will then be rolled out across all the Group's operational sites in order to develop a higher standard of safety culture in ENRC and significantly reduce the number of accidents. It is anticipated that it will take approximately two years to complete the transition process.

As part of the ongoing focus on improved safety standards, two health and safety training modules were developed by the Group and introduced to all Divisions. These modules have been designed in line with the UK National Examination Board of Occupational Safety and Health (NEBOSH). To date 59 managers have received training under these modules.

#### Looking ahead

Safety will remain an area of key focus during 2009 and will include:

- Implementation of the new safety management standards in Kazchrome and preparatory work to establish a framework to roll the standards out to all operational sites.
- Further training of employees to NEBOSH standards.
- Development of safety performance appraisal systems and risk assessment standards.
- Further develop reporting procedures to align against international norms.

#### Health

The provision of employee health and medical programmes is an expected element of corporate duties and these programmes have been a core element of management focus for a number of years. We provide extended programmes to our employees and their families on a voluntary basis and we believe the programmes we operate are amongst best practice in the Republic of Kazakhstan. No major health concerns have arisen during the year.



## Business Review continued

### Corporate Responsibility Review continued

There is an ongoing focus on reducing the health risk to our employees by replacing old equipment with equipment featuring enhanced health and safety design. In addition, new policies to enforce the use of personal protective equipment have been adopted during the year as part of the new safety management system.

#### Looking ahead

Goals for occupational health improvement in 2009 will include:

- Continued investment in improved preventative measures to reduce occupational health exposures in areas of dust control, ventilation, noise control, vibration and machine guarding.
- Further focus on training to reduce occupational health risks.

#### 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 Kazakh Government to implement governmental agreements, programmes and initiatives related to implementing the Law of the Republic of Kazakhstan 'On Social Partnership'.

During the year ENRC has produced a social framework to replace separate operating site policies. 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 2008 the Group employed 66,567 employees (2007: 64,150). 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. In particular, management is keen to introduce innovative training programmes to help develop employees and encourage them to reach their maximum potential.

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 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.

The impact of the current economic downturn started to be felt most keenly by the Group during the fourth quarter of 2008. The imposition of production cuts, particularly during the winter, and the resulting effect on our employees has been an area of concern for senior management. Steps have been taken to try and mitigate the impact of production cuts on employees by utilising shorter working hours, job sharing and unpaid leave. A number of the Group's plants are located in remote and inaccessible areas in the Republic of Kazakhstan and the community infrastructure, including housing, is largely provided by ENRC. Management is particularly focused on ensuring that no employee loses the right to housing during the current difficulties.

In addition to the social programmes provided for employees in the Republic of Kazakhstan, ENRC has continued to develop the Talent Management Programme during the year. This was introduced in order to provide training and development related programmes for employees. The main training programmes seek to develop the skills of employees to better equip them for their current roles and to upgrade their capabilities so as to enable them to progress within the organisation.

The Talent Management Programme is also designed to accelerate the development of management skills within the Group. The Programme offers training for junior management via the ENRC Manager Standard; the ENRC Mini-MBA for middle management and the MBA programme of Moscow State University Higher School of Business for senior management. During the year 650 employees benefited from management training under one of the above schemes and the Group intends to maintain the level of participation during 2009.

During 2008 the Company made the first awards under its Long Term Incentive Plan. The Plan is designed to incentivise and retain key employees, many of whom work at operational sites in the Republic of Kazakhstan or in ENRC's Astana office.

#### Looking ahead

During 2009 the areas for focus will include:

- Continuation of the Talent Management Programme.
- Development of skills improvement upgrades.
- Re-training where appropriate.
- Ethics training.

#### 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 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, latterly through the funds Umit Oty and Kokzhiiek, and during 2008 through Komek.

The ENRC Komek Corporate Foundation was established during 2008 and is a non-commercial and charitable organisation which will finance cultural, educational and other social activities in the Republic of Kazakhstan. Its 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 the 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 Foundation signed agreements with the Governors of Aktobe, Kostanai, Karaganda and Pavlodar regions to finance social projects in these regions during 2008.

In Aktobe the projects included donations to Alginsk Orphanage, support to families and the construction of churches and mosques in Chromtau and Aktobe. In Kostanai the contributions included support for several sports initiatives, including the development of ice hockey facilities. In Karaganda most of the funds were allocated to the provision of housing and in Pavlodar the funds were used for the development of sports facilities and the provision of housing in Ekibastuz and Aksu.

The Group expenditure for Community Social Investment in 2008 amounted to US\$31 million (2007: US\$34 million).

#### Looking ahead

During 2009 we will continue to focus on:

- the continued development of Komek;
- continued social housing construction in collaboration with local authorities; and
- closer engagement with local NGOs and other stakeholders to identify community needs and social projects.

#### Environment

Improvements in environmental protection have been an area of focus for ENRC management for a number of years. ENRC commenced the phased implementation of formal management systems in 2003 including the implementation of ISO 9001 systems for all operations and ISO 14001 environmental management systems for Ferroalloys, Iron Ore, Alumina and Aluminium and Energy divisions. ENRC was the first organisation in the Republic of Kazakhstan to implement an environmental management system certified for ISO 14001.

As the Group develops internationally, it is keen to raise its environmental standards to match international norms. A new environmental code was adopted in the Republic of Kazakhstan in 2007 and it is anticipated that environmental regulations will tighten in future to correspond with tightening regulations across the world. The Group hopes to anticipate such regulations by investing in projects to reduce its environmental impact. These include:

- Investing in new technologies to replace older technologies and minimise environmental impact.
- Resource conservation – use less to produce more.
- Improving performance measurement systems.

ENRC monitors its air emissions, wastewater discharges and the amount of waste generated and tests the quality of ambient air, nearby surface water, soil and groundwater. Renewal of environmental permits requires the submission of an annual statistical report on the monitoring results to the Republic of Kazakhstan's environmental authorities. The provision of such permits may require an environmental payment to be made in respect of routine operations and non-compliance may result in penalties.

The environmental authorities in the Republic of Kazakhstan conduct regular inspections of ENRC site operations and penalties may be imposed as a result of the findings. In 2008 the amount of state inspection penalties was US\$31,000 (2007: US\$ 42,000).

During the year, ENRC made progress in respect of wastewater management and waste disposal. A new Chemicals Policy was adopted during 2008 and management focused on reducing the impact of hazardous waste by introducing a chemical waste management system.

There were no major environmental incidents during 2008.

#### Looking ahead

In 2009 we will focus on:

- maximising reuse and recycling water at operational sites to reduce consumption of fresh water;
- reducing energy consumption;
- designing a framework for setting targets in relation to waste management, air emissions and water discharges;
- continue to focus on replacing older technology with new technology with improved air emissions standards; and
- developing the existing environmental database, performance indicators and benchmarks to move towards common international approaches for reporting.