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## CORPORATE SOCIAL RESPONSIBILITY REPORT

Our strategic success depends on ensuring that we conduct all our business in a manner which delivers against our objectives of corporate responsibility and sustainable development. These objectives are already integral to the way we do business. They are especially evident in our business planning processes and in the development, in 2007, of our core values which provide a consistent and shared basis for all our business activities. However, we constantly strive to improve our corporate responsibility and sustainable development in particular as we grow our business and extend our influence and impact.

We routinely refer to 'corporate responsibility' and 'sustainable development' through this report. For us 'corporate responsibility' is about the way we operate as a business. Sustainable development is managing the total impact of our business for the longer term. Our Health, Safety, Environment and Sustainability (HSES) Committee is the Board level Committee accountable for managing and monitoring our ability and success in delivering these objectives.

This is our first formal report on corporate responsibility and sustainable development. It sets out our philosophy and governance approach and includes information on our priorities for 2008. It explains our activity and performance in 2007 in those areas which we consider to be fundamental to our delivery of the principles of corporate responsibility and sustainable development. We expect to extend our reporting on these matters in future years.

We aspire to extend and improve our governance and performance to operate in line with international expectations and practices for the mining industry in this area. In order to do this, we started a number of new programmes in 2007 to identify where we need to focus effort and resource. We are using the International Council for Mining and Metals (ICMM) to guide our plans. In 2008 we will begin to obtain more comprehensive data, in line with international standards where possible. We will then use this information to develop updated action plans and set targets. In line with ICMM guidelines and intent, we are committed to increasing transparency

through providing relevant and reliable information that enables our external stakeholders to understand our current position and future plans and how these will support our overall business strategy.

We have demonstrated consistent commitment to corporate responsibility and sustainable development that places us among the best practice companies in Kazakhstan. However, becoming a FTSE 100 company, combined with our increasing international presence, puts new demands and expectations on us. It is a priority for us to achieve adherence to relevant international best practice and recognised standards and norms. We will commit the necessary capital funds and management time to this effort. We will also seek external support where required to help us prioritise areas for focus and to implement effective and efficient initiatives and programmes. Many of our investment and behavioural programmes will take a number of years to complete and show full results, however we hope that some improvements will be evident each year and our reporting will present our progress and results.

### OUR GOVERNANCE OF HSES

Our governance structure is in a period of development and transition, reflecting the UK listing in 2007 as well as the change to more central governance and control. The Group HSES Committee (the 'Committee') is a delegated Committee of the Board. The Committee was established in late 2007. It is chaired by Dr Johannes Sittard, the Chief Executive Officer. Mr Eduard Utepov (non-executive Director), Mr Felix Vulis (Chief Operating Officer of Kazakhstan), and Mr Abdraman Yedilbayev (non-executive Director) are members of this Committee. The membership and operation of the Committee will be kept under review in 2008 during its first full year of operation to ensure that it is able to meet its governance objectives. We will identify, in particular, the manner in which the HSES Committee connects with other Committees to help ensure effective and complete integration of corporate responsibility and sustainable development into other business processes.

The Committee is responsible to the Board for formulating and recommending a policy

on health, safety and environmental issues and sustainable development. It will meet at least twice a year and report to the Board on a bi-annual basis.

The HSES Committee will focus on:

- Understanding the requirements of the external environment and advising the Board on an appropriate policy response.
- Driving compliance with applicable norms and standards through the definition of Group policies and development of appropriate internal governance.
- Ensuring that an effective system of health and safety and environmental standards, procedures and practices is in place at each of the Group's operations through monitoring and oversight.
- Reviewing management's investigation of incidents or accidents that occur to assess whether policy improvements are required.

Whilst the Committee is expected to make recommendations, the ultimate responsibility for establishing the Group's health, safety and environment policy will remain with the Board.

The Committee is supported by an HSES Working Group which comprises the Group Heads of Environment, Health and Safety, Human Resources and Social Policy. The Working Group is responsible for monitoring of HSE programme implementation, development of action plans and providing proposals on operational improvements to the HSES Committee. The Working Group presents bi-annual reports to the HSES Committee.

The functional roles present in the Working Group are replicated at the operating sites. Divisional responsibilities are also in place but are currently being further formalised with the migration towards a Group structure. The Divisional changes are particularly evident in respect of health and safety management where, in order to comply with Kazakhstan legal requirements, each Division is required to have a health and safety department independent of operational management. These changes have been completed in the Ferroalloy Division, the Alumina and Aluminium Division and Iron Ore Division during 2007.

Development of a common corporate culture and consistent conduct is a priority for ENRC. The Board adopted a Code of Conduct in 2007, which expects each employee and Director to observe the highest ethical standards and to exercise good judgement in performing their duties. Presentations of the Code of Conduct were made at each operating site and Astana and London offices before the end of 2007. A whistleblowing policy was also established, which will be disseminated throughout the Group during 2008.

ENRC was the first organisation in Kazakhstan to become a signatory to the UN Global Compact. This role has provided opportunity for dialogue with other corporations in Kazakhstan. We have conducted a workshop for other Kazakhstani enterprises which are members of the Global Compact (Kazpochta – state postal company, Kazcommerce bank, Alliance Bank and others) to create a framework on reporting and monitoring. It is planned to create a Global Compact Network under the umbrella of the UN Programme in Kazakhstan and ENRC is directly involved in this process. ENRC is also an active member of the Kazakhstan Business Council for Sustainable Development (KBCSD) formed in line with the recognised World Business Council for Sustainable Development.

### Key areas for HSES governance developments in 2008

Our goals for 2008 are to:

- take steps to further develop the governance structure including monitoring of the work of the HSES Committee, implementing common frameworks and strengthening the divisional role;
- review the scope of Group policy arrangements relevant to corporate responsibility and sustainable development to identify gaps and areas which require further development, including development of the Group Sustainable Development Policy;
- extend and formalise current arrangements for internal reporting of performance including divisional reporting to the HSES Committee and from the Committee to the Board;
- review our governance arrangements and reporting policies, in particular for safety,

including increasing the responsibility of operating site Directors; and  
 → continue our work under the Global Compact Network and undertake more structured dialogue with our key stakeholders to assist us to determine areas for priority.

### Key matters

As identified in Risk Factors, on pages 22 to 23 of this report, the continuing development of Kazakhstani environmental, health, safety and social regulations are identified as a key risk for the Group. We recognise that regulatory developments will demand increased investment in our equipment and infrastructure and may bring increased remediation and compensation costs. In 2007, the total annual costs of complying with existing legislation, including operating costs, capital expenditure and the obligatory environmental fees were US\$92 million (2006 : US\$48 million). As part of the listing process in 2007, the Group engaged a UK consulting group to assess the Group's environment status with respect to material, operational, environmental and key health and safety issues with anticipated cost implications exceeding €1 million. The exercise included work with 27 ENRC operating sites. It did not include attention to socio-economic impacts, greenhouse gas emissions, potential third party liabilities or end-of-life closure costs (asset retirement obligations). The work identified estimated costs of €100 million to achieve compliance with Kazakhstani standards and a further €100 million to meet international standards. These budgets have been allocated. Following from this work, 2008 priorities are to achieve improved standards in hazardous materials management.

We will be completing a Group-wide HSES evaluation in 2008 in order to identify key matters and risks on a more systematic basis.

### SAFETY AND HEALTH

#### Safety

Safety is a matter in which we cannot afford to under deliver. We know, therefore, that we must constantly strive to improve safety standards. Safety has been an area of focus in 2007 and this emphasis will continue into 2008.



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In 2007 we completed an internal health and safety review and reported to the Executive Committee in August 2007. Our work identified that the primary factors leading to health and safety incidents are:

- Behaviours and mindsets.
- Working conditions.
- Condition of equipment and infrastructure.

The work shows that 80% of accidents at ENRC are the result of human behaviour and culture, with the remainder resulting from violations of safety rules. Our analysis shows that 70% of the accidents in 2007 involved employees with less than three years' experience. The behavioural element of safety improvement has been an area of attention. US\$1 million was spent on health and safety training in both 2007 and 2006.

Action plans are being developed at the operating sites. A number of changes to infrastructure and investments have been taken in 2007 to reduce safety hazards including:

- investments in two plants to process fines and produce pellets to reduce metal spitting (Kazchrome);
- purchase of lifting equipment and an oxygen pipeline system in Aksu Ferroalloy plant to eliminate manual handling in some situations;
- installation of locator 'chips' into miners' equipment to monitor their location and enable early warning; and
- pneumatic guns installed on ore transportation equipment to reduce manual labour.

The due diligence performed as part of the listing process highlighted occupational health and safety as a major area needing management attention. Dedicated work programmes were identified to be necessary at some operating sites, including replacement of out-of-date equipment and purchasing of small-scale equipment to reduce manual handling. Further external safety review work is planned in 2008. This will involve use of the 'international health and safety consultancy' framework to understand and respond to health and safety risks.

Despite our efforts we must constantly strive to improve. As stated by both the Chairman

and the Chief Executive Officer, we were very disappointed that we had 15 fatalities, through 14 separate incidents (2006 : 11 fatalities). Seven of these incidents occurred in SSGPO. Each fatal event is immediately reported to the Enforcing Authorities, insurers and to the Executive Director, Head of Communications and Chief Executive Officer via our incident notification system. A full enquiry is instigated including involvement of line managers from the department where the accident occurred, who are ultimately responsible for implementing recommendations, a health and safety representative, an employee experienced in the work activity and a representative of the trade union.

We achieved improvement in 2007 in safety performance in terms of accident frequency with the Group's Lost Time Injury Frequency Rate (LTIFR), measured per 1,000,000 hours worked, at 0.58 (2006 : 0.77). There were 63 reported work related injuries in 2007 (2006 : 85). Five of these accident events were disabling (2006 : 14). Kazakhstani legislation does not require recording of minor injuries, nor sub contractor injuries. Therefore our reporting definitions and procedures will need to be extended to align to international practice on safety reporting.

Analysis of the accident events, including the fatal events in 2007, show consistency in the primary causes which include, in order of occurrence:

- Struck by moving and falling objects.
- Falls from height.
- Electrical hazards.
- Road traffic accidents.
- Falls as a result of slips.
- Influence of extreme temperatures.

All these events cause us deep concern as management and we will remain diligent in investigating the causes and taking steps to achieve our goal of zero fatalities. In direct response to the accident and fatality events in 2007 we have:

- reviewed the register of out-of-date equipment to be replaced and changed that equipment presenting highest risk;
- conducted an investigation into changing mining and technical conditions and stability of rock in the mining divisions;
- conducted an internal audit of special

guard equipment as well as the fire extinguishing equipment leading to plans to replace equipment;

- introduced the requirement for appropriate training of new starters and employees with less than three years experience and created a post for a specialist instructor; and
- implemented a new system of accident registration and analysis.

During 2007 we paid health and safety fines and penalties of US\$20,000 (2006 : US\$7,000). The number of compensation cases increased to 30 cases (2004–2006 : approximately 25 cases annually) and payments increased to US\$29,000 per case (2004–2006 : annually approximately US\$27,000 per case).

### Looking ahead

We will strive to make further improvements in this area as a priority in 2008. Key areas of safety management focus in 2008 will include:

- US\$95 million budgeted for the replacement of older equipment;
- Delivery of further training of chief engineers and chief technical managers (30 employees) on the international certification programme on occupational safety (UK standards);
- The introduction of Group-wide near-miss and no-blame reporting procedures;
- The initiation of the Safety Training Observation Programme (STOP) to provide a guideline for safe behaviour;
- Establish 'Experience Exchange Programmes' to share best practice for labour protection with relevant internal specialists; and
- Review our current reporting definitions and procedures against international norms with further development to improve alignment where required.

We will work to improve safety performance, both accidents and fatalities, compared with 2007 (when considered on the same basis). However with a potential broadening of reporting scope, deterioration in reported safety performance may occur in the short term.

### Health

Prevention and monitoring of the health and

welfare of our employees has been a core part of management programmes at ENRC for a number of years. Provision of employee health and medical surveillance programmes is an expected part of corporate duties in Kazakhstan. We believe our programmes are among best practice in Kazakhstan with provision of voluntary extended programmes to our employees and their families.

As a result of our own work and the due diligence completed in 2007, we have identified a number of areas where we need to make investments in plant and equipment to reduce the health risk to our employees. Whilst in compliance with local standards, in a number of areas the workplace environment would not comply with international occupational health standards and norms (see Looking Ahead, below).

We have already put in place a number of initiatives in 2007 including:

- Replacement of old equipment with equipment featuring enhanced health and safety design (for example, reduced vibration, better ergonomics).
- Purchase of small-scale equipment to eliminate manual handling in some situations.
- Purchase of new up-to-date personal protection equipment.

The Group has a special healthcare programme and spent US\$10 million in 2007 (2006 : US\$9 million) for employee medical treatment which covers in excess of 40% of all employees. Kazchrome and EEC expenditure on additional medical services, beyond those required by legislation, equates to an additional spend of \$600 per employee per annum.

### Looking ahead

Key goals for occupational health improvement in 2008 will include:

- extended attention to the proactive reduction of occupational health risks through changes in the working environment, working practices and behaviours;
- investment in improved preventative measures at a number of operations to reduce occupational health exposures and achieve international standards. These programmes will include those

dealing with dust control, ventilation, noise control, vibration and machine guarding. The necessary improvements are expected to take a number of years to complete;

- implementation of a Group wide campaign to enforce improved use of personal protective equipment across all operating sites; and
- implementation of near-miss reporting in health performance including, for example, reporting of micro-traumatism events.

### ENVIRONMENT

Environmental protection has been a focus for management attention for a number of years. In 2003, ENRC initiated a phased implementation of formal management systems. This included the implementation of ISO 9001 systems for all operations, including ISO 14001 environmental management systems for Ferroalloys, Iron Ore, Alumina and Aluminium, and Energy Divisions. The Group was the first organisation in Kazakhstan to implement an environmental management system certified for ISO 14001. The Group's operations have obtained all required material contracts, licences and permits. A new Environmental Code was adopted in Kazakhstan in January 2007 introducing changes to the regulatory mechanism, including the concept of Best Available Techniques (BAT). This should bring Kazakhstani environmental regulation closer to that of the EU. ENRC is involved in the development of the technical specifications for some of the new industry standards which are being prepared to support implementation of the new Code.

Although there are no current or anticipated regulatory obligations in Kazakhstan that require the Group to conform to best international practises, the Group is addressing a number of these issues. During 2007 we have undertaken a number of investment projects to reduce our environmental impact, for example:

- Completion of replacement of two turbines with more efficient equipment and the installation of four modern air emission filters at the EEC Power Plant to reduce air pollutants, such as dust and nitrogen oxides, from the facility.
- Completion of a BAT assessment for main



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operations by an international engineering and technical consulting firm.

- Emphasis on resource conservation objectives in business plans (see Looking Ahead below).

ENRC monitors or estimates its air emissions, wastewater discharges and the amount of waste it has 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 Kazakhstan's environmental authorities, compliance with the permits' provisions and the fulfilment of any environmental payment obligations, which include payments for routine operations and any non-compliance penalties.

Kazakhstan's environmental authorities have also conducted inspections of ENRC site operations. In 2007 the amount of state inspection penalties was US \$42,000 (2006 : US\$24,000) according to the registered claims of inspections.

Currently Kazakhstan does not have a regulatory or legal basis for calculating and reporting greenhouse gas emissions including carbon dioxide, methane and others. ENRC, working jointly with KBCSD, developed and applied a methodology for determining power plant emissions. Further work will be undertaken in this area.

We have begun automation of our collection and reporting of environmental information during 2007 with the introduction of the KIT web-based reporting system which will retain source entry data and consolidate through to Group level. This system will allow us to provide improved reporting on environmental performance.

Performance data for the Energy, Iron Ore and Ferroalloy Divisions show a general trend of reduced impact compared to 2006; in particular:

- A reduction in energy consumption per unit produced between 2% and 7% across the three divisions;
- A 4% reduction in waste generated per unit of chromium iron ore mined;

- A 15% decrease in wastewater discharge per unit of iron ore concentrate and pellets produced;
- A 5% reduction in water consumed per unit of electricity produced by the Energy Division;
- A 25% increase in the volume of waste processed and sold to third parties by the Energy Division for reuse; and
- Air emission improvements were achieved in the Energy Division with a decrease of 16% and 22% of sulphur dioxide and particulate matter respectively per unit of electricity produced.

No major environmental incidents occurred in 2007.

### Looking ahead

During 2008 we will continue our environmental programmes. Key areas of attention will include:

- Technical upgrades including a US\$2.3 million investment at the AoK power station to reduce water losses;
- Processing of slag wastes from ferroalloys production and ferrochromium slag expected to reduce slag disposal by approximately 300,000 tonnes and 1 million tonnes per annum respectively;
- Installation of a mine drainage collection system expected to reduce wastewater discharge by approximately 3.5 million m<sup>3</sup> per annum; and
- KAS improvements to two gas purification units in the smelting shop enabling reduced gaseous emissions.

### SOCIAL POLICY

The Group has developed a reputation for being a socially oriented and responsible business. It is a party to all governmental agreements, programmes and initiatives related to implementation of the Law of the Republic of Kazakhstan 'On Social Partnership' and global social accountability principles.

ENRC is in the process of preparing a consistent Group-wide social framework to replace separate operating site policies. The social policy focuses on two overlapping areas: Employees and Communities.

### Employees

During 2007 the Group employed 64,150 employees and used more than 400 individuals as contractors. This places ENRC as one of the largest employers in Kazakhstan. As identified in Risk Factors on pages 22 and 23 of this report our success depends significantly on our ability to attract, retain and motivate key senior management and employees. We have developed extensive human capital programmes which are outlined below. Further data on our human capital performance will be reported in 2008.

The Group benefits from good labour relations and since it acquired its operating assets, it has not experienced any material strikes or work stoppages at any of its operating sites. Over 95% of employees are members of trade unions. In 2007, due to new Kazakhstani Labour Code requirements, the Group carried out a series of negotiations with three major trade unions on remuneration policies, work conditions and social benefits to be provided to the employees. Following this, the Group has well-balanced industrial agreements, which serve as a basis for the collective agreements each Group company has signed with the 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 youths and pensioners.

All Group companies in good faith fulfil all requirements under sub-surface licence conditions. On a quarterly basis each Group company submits reports to the applicable government agencies on social responsibility and personnel training requirements.

The Group plans to continue its work on attraction and retention of required personnel by means of social package improvements.

ENRC has a number of employee programmes in place including:

- Housing development and transfer programme (2007 expenditure \$20 million).
- Training programmes and professional skills upgrade programmes.
- Youth programmes.
- Health and disease prevention programmes.
- Recreational programmes.
- Sport programmes.
- Training programmes for workers' children.
- Programmes for veterans and pensioners.

In addition to the social programmes, the Talent Management Programme is a key priority for the Group. During 2007 US\$4 million was spent on training and development related programmes. Our training and development programmes are focused on three major levels: managers, specialists and workers. In the year 2007 we trained 1,300 managers, 15,000 specialists and officers, and 17,000 workers.

The main training programmes comprise:

- Training and retraining of employees to perform their roles;
- Training in skills closely related to current responsibilities; and
- Skills upgrades.

In order to accelerate the development of our management team we implemented an 'ENRC Managers Training Programme' comprising ENRC Manager Standard for junior management, ENRC Mini-MBA for middle management and the MBA programme of Moscow State University Higher School of Business for senior management.

During 2007, we developed a succession plan for key positions in Kazakhstan. The Succession Plan includes 56 senior management positions, comprising 112 individuals, including general managers, their deputies, chief accountants and heads of operational units. The average age of those individuals included in the Succession Plan is 42.

## Looking ahead

Key areas for focus in 2008 will include:

- Continuation of the Talent Management Programme.
- The 'One Stop Shop' Project will start to be implemented at each of the Group's site operations to optimise the social benefits package, enhance its efficiency and ensure transparency. This will allow each enterprise to create unified centres where an employee can receive all relevant information on social benefits and prepare necessary application documents with qualified assistance.

## COMMUNITIES

Maintenance of a responsible social contract with the communities in which we operate is an established practice in ENRC. Often ENRC is the only industry operating in towns and some of the cities near ENRC operating sites depend on the infrastructure development pursued by ENRC. Each year the Group signs regional agreements with the Governors of Karaganda, Pavlodar, Aktubinsk and Kostanai regions. The main areas of sponsorship and charity under these agreements include:

- Development of the healthcare system.
- Vocational system of education.
- Support for small towns and villages.
- City improvement programmes.
- Assistance in the development of educational, cultural and sports facilities.
- Rendering assistance to vulnerable populations.
- Financing places of worship.

The Group expenditure for Community Social Investment in 2007 amounted to US\$34 million) (2006 : US\$24 million). This includes donations and gifts in kind to communities in which we operate and includes donations to public funds.

In October 2007, the Group received the Kazakhstani National Award 'Tanym' (Recognition) in the category 'Socially Responsible Business is a Competitive Business'.

In 2007, the Group:

- presented the public health services of Karaganda with 50 ambulances worth US\$1 million. This contribution was made in accordance with a Memorandum of Mutual Cooperation between the Group and the government of the Karaganda region worth US\$2 million. The Group was one of the General Sponsors of the 'Karaganda Invest – 2007' Forum;
- annually sponsors an International Eurasian Media Forum. In 2007 the Group allocated US\$100,000; and
- provided \$4 million of sponsorship to a number of sports clubs and teams including: hockey team Gornyak, football clubs Tobyl and Vityaz (Kostanay region), volleyball team Kazchrome and football team Gornyak (Aktubinsk region), football club Irtysh and tennis club Kazchrome (Pavlodar region).

## Looking ahead

During 2008, we will continue our existing programmes. In addition we will focus on providing community support and sponsorship including the following areas in particular:

- Social housing construction in collaboration with local authorities.
- Programmes for vocational schools (development of electronic books and manuals).
- Support of talented youth.
- Put further attention to measuring our wider socio-economic contribution, in particular the payment of taxes and royalties.