

Part II: Information on ENRC

Overview

ENRC is a leading diversified natural resources group with integrated mining, processing, energy, logistical and marketing operations. The majority of the Group's assets were acquired in the privatisation process undertaken in Kazakhstan in the mid-1990s. The Company is a holding company incorporated in England and Wales and was formed as part of a reorganisation in December 2006 to simplify the ownership structure of the Group's assets and to consolidate them in a single group of companies. The Group's production assets are located in the Republic of Kazakhstan, where it employs approximately 62,000 people. In 2006, the Group accounted for approximately 4% of Kazakhstan's GDP. The Group currently sells its products to customers around the world, including in Russia, China, Japan, Western Europe and the United States. For the year ended 31 December 2006, the Group had revenue of US\$3,256 million (2005: US\$2,950 million) and net profit of US\$686 million (2005: US\$777 million). For the six months ended 30 June 2007, the Group had revenue of US\$1,856 million (US\$1,514 million for the six months ended 30 June 2006 (unaudited)) and net profit of US\$388 million (US\$321 million for the six months ended 30 June 2006 (unaudited)).

The Group has five operating divisions:

The Ferroalloy Division. The Ferroalloy Division produces and sells ferrochrome and other ferroalloys, primarily to steel producers, and sells chrome ore and manganese ore to third-party ferroalloy producers and the chemical industry. The Ferroalloy Division's vertically integrated operations include chrome ore and manganese ore mines, two ferroalloy processing plants and a gas power station. The Ferroalloy Division's chrome ore reserves are believed to be the largest in the CIS (169.3 million tonnes as at 1 July 2007) and are believed to have a higher grade (42.1%) than those of other large-scale producers. Furthermore, according to Heinz H. Pariser estimates, based on 2006 data, the Ferroalloy Division is the world's largest producer of ferrochrome on a chrome content basis and has the lowest cash costs of all ferrochrome producers in the world. In 2006, the Ferroalloy Division produced approximately 3.41 million tonnes of saleable chrome ore, 0.86 million tonnes of manganese ore concentrate and approximately 1.39 million tonnes of ferroalloys, including approximately 0.96 million tonnes of its primary product, high-carbon ferrochrome. For the year ended 31 December 2006, the Ferroalloy Division had total third-party revenue of US\$1,473 million, which represented 45.2% of the Group's combined and consolidated revenue. For the six months ended 30 June 2007, the Ferroalloy Division had total third-party revenue of US\$917 million, which represented 49.4% of the Group's combined and consolidated revenue.

The Iron Ore Division. The Iron Ore Division produces and sells iron ore concentrate and pellets primarily to steel producers. According to CRU estimates, based on 2006 data, the Iron Ore Division operates the largest iron ore mining and processing enterprise in Kazakhstan, is the sixth largest iron ore exporter by volume in the world and is in the lowest third of the industry cost curve for global iron ore pellet production. The Iron Ore Division's operations include iron ore mines, crushing, beneficiation and pelletising plants and a thermal power station. In 2006, the Iron Ore Division mined approximately 38.8 million tonnes of iron ore. This was processed into 16.1 million tonnes of iron ore concentrate, of which 7.0 million tonnes were retained for sale and the balance was used to produce 8.5 million tonnes of iron ore pellets. For the year ended 31 December 2006, the Iron Ore Division had total third-party revenue of US\$829 million, which represented 25.5% of the Group's combined and consolidated revenue. For the six months ended 30 June 2007, the Iron Ore Division had total third-party revenue of US\$457 million, which represented 24.6% of the Group's combined and consolidated revenue.

The Alumina and Aluminium Division. The Alumina and Aluminium Division produces and sells alumina to aluminium producers. According to CRU estimates, based on 2006 data, the Alumina and Aluminium Division is the fifth largest supplier of traded alumina by volume in the world and is in the lowest quartile of the industry cost curve for alumina producers globally. The Alumina and Aluminium Division's vertically integrated operations include two bauxite mining units, a limestone mine, an alumina refinery and a power station. In addition, the Alumina and Aluminium Division is constructing a new aluminium smelter that will allow the division to process its alumina into aluminium. The smelter is expected to be commissioned by 31 December 2007 and achieve full

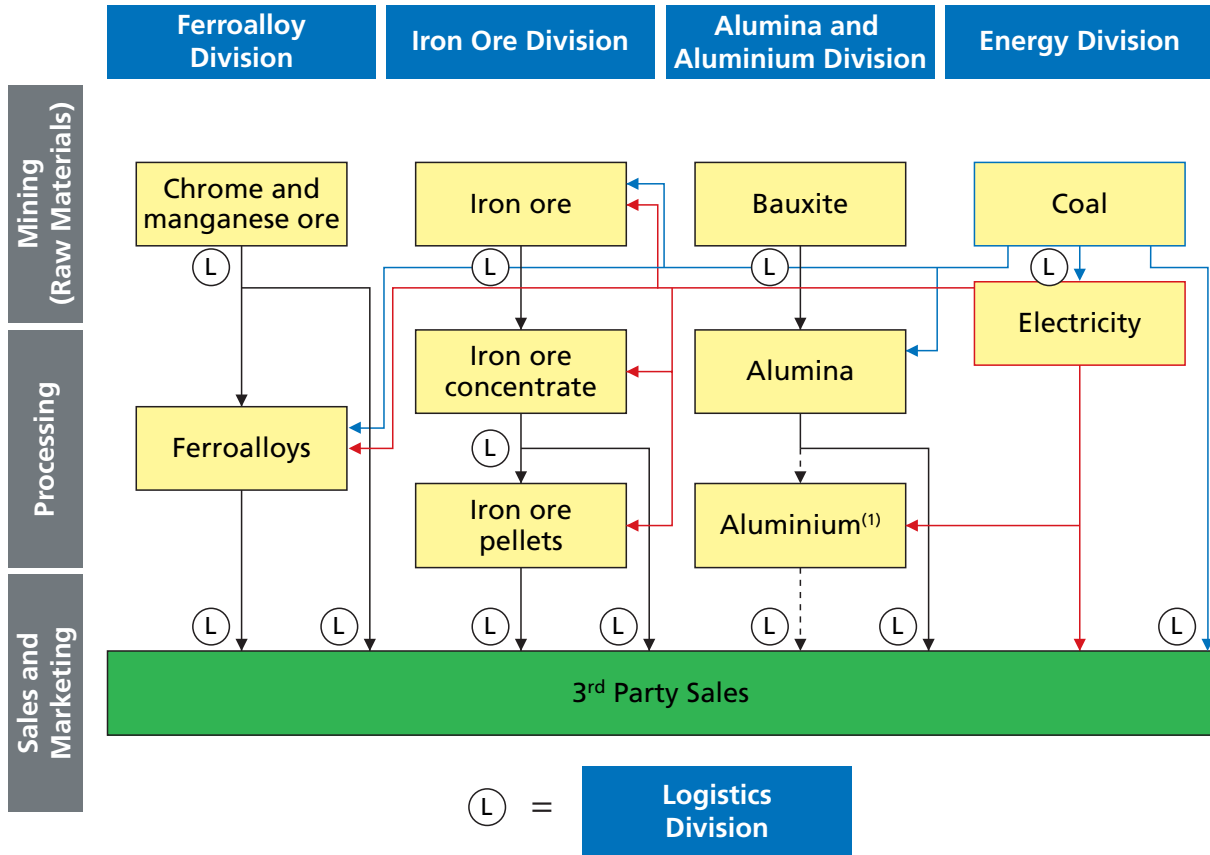
production capacity of 250,000 tonnes per annum by 2011. In 2006, the Alumina and Aluminium Division mined approximately 4.9 million tonnes of bauxite and produced approximately 1.5 million tonnes of alumina. For the year ended 31 December 2006, the Alumina and Aluminium Division had revenue of US\$612 million. US\$602 million of this was derived from third-party sales, representing 18.5% of the Group's combined and consolidated revenue. For the six months ended 30 June 2007, the Alumina and Aluminium Division had revenue of US\$325 million. US\$324 million of this was derived from third-party sales, which represented 17.5% of the Group's combined and consolidated revenue.

The Energy Division. The Energy Division is one of the largest electricity providers in Kazakhstan, accounting for approximately 16% of the country's recorded electricity production in 2006. The Energy Division provides a cost-effective energy supply to the Group's principal operating divisions as well as producing a surplus for sales to third parties in Kazakhstan. For the year ended 31 December 2006, the Energy Division had revenue of US\$263 million, of which US\$154 million was derived from third-party sales, representing 4.7% of the Group's combined and consolidated revenue. For the six months ended 30 June 2007, the Energy Division had revenue of US\$157 million, US\$93 million of which was derived from third-party sales, representing 5.0% of the Group's combined and consolidated revenue.

The Logistics Division. The Logistics Division provides effective transportation and logistics services to the Group's principal operating divisions and to third parties. The Logistics Division's operations include freight forwarding, wagon repair services and railway construction and repair services. The Logistics Division mitigates many of the risks associated with the supply of raw materials and delivery of products to customers by providing the Group with reliable delivery services. In addition, the Logistics Division operates a railway transfer and reloading terminal on the Kazakhstan and China border, facilitating the Group's access to the growing market in China. For the year ended 31 December 2006, the Logistics Division transported over 61.7 million tonnes of goods, of which approximately 87.3% was intra-Group. For the year ended 31 December 2006, the Logistics Division had revenue of US\$277 million, of which US\$198 million was derived from third-party sales, representing 6.1% of the Group's combined and consolidated revenue. For the six months ended 30 June 2007, the Logistics Division had revenue of US\$102 million, US\$65 million of which was derived from third-party sales, which represented 3.5% of the Group's combined and consolidated revenue.

In addition to its principal operating divisions, the Group has a centralised sales and marketing function that coordinates the operating divisions' monitoring of markets, production strategy and external sales. This offers the Group several competitive advantages including the identification and exploitation of market synergies and improved operational efficiencies.

With its internal supply of key raw materials, processing capability, energy sources, logistics services and centralised sales and marketing function, the Group benefits from a fully integrated business model as follows:



(1) Once in service, the aluminium smelter, which is expected to be commissioned by 31 December 2007, will receive alumina from the Alumina and Aluminium Division and electricity from the Energy Division.

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The following table sets out selected consolidated financial information for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. The information has been extracted without material adjustment from the "Financial information" in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See "Note 4, Segment information" in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

US\$ in millions	Ferroalloy Division	Iron Ore Division	Alumina and Aluminium Division	Energy Division	Logistics Division	Group and unallocated items	Intra-Group Eliminations	Total
Segment revenue								
2004	1,287	883	384	211	57	—	(131)	2,691
2005	1,377	857	460	205	195	—	(144)	2,950
2006	1,473	829	612	263	277	—	(198)	3,256
Six months ended								
30 June 2007	917	457	325	157	102	—	(102)	1,856
30 June 2006 (unaudited)	687	402	311	123	83	—	(92)	1,514
Adjusted EBITDA ⁽¹⁾								
2004	669	576	186	66	19	(14)	—	1,502
2005	606	479	182	67	47	(18)	—	1,363
2006	547	323	277	77	54	(22)	—	1,256
Six months ended								
30 June 2007	405	197	132	65	23	(25)	—	797
30 June 2006 (unaudited)	212	151	156	44	26	(14)	—	575
Adjusted EBITDA Margin ⁽²⁾								
2004	52.0%	65.2%	48.4%	31.3%	33.3%	—	—	55.8%
2005	44.0%	55.9%	39.6%	32.7%	24.1%	—	—	46.2%
2006	37.1%	39.0%	45.3%	29.3%	19.5%	—	—	38.6%
Six months ended								
30 June 2007	44.2%	43.1%	40.6%	41.4%	22.5%	—	—	42.9%
30 June 2006 (unaudited)	30.9%	37.6%	50.2%	35.8%	31.3%	—	—	38.0%

(1) Adjusted EBITDA represents profit before finance income, finance costs, income tax expense and depreciation and amortisation (including negative goodwill), as further adjusted to add back exceptional items. Exceptional items (costs incurred in relation to the initial public offering) amounted to US\$6 million for 2006 and US\$20 million for the six months ended 30 June 2007.

(2) Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of revenue.

Key strengths

The Directors believe that the key strengths of the Group are as follows:

Its diversified operations and reserves enable it to sell a wide range of commodity products, reducing its vulnerability to the price volatility of individual commodities.

The Group sells a diversified portfolio of commodity products, including ferrochrome, other ferroalloys, chrome ore, manganese ore, iron ore concentrate and pellets, alumina, coal and electricity and, therefore, does not rely on a single commodity or product. The Group's diversification reduces its vulnerability to the price volatility of individual commodities and its reliance on individual customers, regions or operating entities.

It has substantial high quality assets and low costs of production.

According to Heinz H. Pariser estimates, based on 2006 data, the Group is the world's largest producer of ferrochrome based on chrome content. Further, according to CRU estimates, based on 2006 data, the Group is the world's sixth largest iron ore exporter by volume and the world's fifth largest supplier of traded alumina by volume. The Group also believes that it benefits from higher quality chrome ore reserves than those of other large-scale producers, which allow the Group to produce a broader range of ferrochrome products than its competitors. Its integrated mining and processing operations combine mines with long reserve lives and large, well established production

facilities. With the Group's operations also benefiting from Kazakhstan's competitive labour and power costs, it has low cash costs of production. ENRC's cash costs of production for the year ended 31 December 2006 are the lowest in the world for ferrochrome (on a chrome content basis), in the lowest quartile for alumina (on a metric tonne basis) and in the lowest third for iron ore pellets (on a metric tonne basis).

The Group is geographically well positioned to benefit from attractive growth markets, including China.

The Group's locations give it excellent access to the neighbouring high growth markets of China and Russia. The Ferroalloy Division's primary operating facilities, in Aktobe in North-western Kazakhstan and Aksu in North-eastern Kazakhstan, are close to the border of Russia and, through the Company's rail transfer station located on the Kazakhstan–China border, provide relatively easy access to China. The operations of the Iron Ore Division and Alumina and Aluminium Division are located close to the Group's key customers for iron ore and alumina, MMK and UC RUSAL, respectively. ENRC's proximity to current and prospective customers in these regions provides a significant competitive advantage in terms of customer service and transport costs. In addition, ENRC's excellent strategic location leaves it well positioned to take advantage of opportunities to acquire complementary businesses within the region.

It has vertically integrated operations from mine-to-market that ensure it has control over the supply of its raw materials and access to other required services.

With its internal supply of raw materials, processing capabilities, energy sources, logistics support and centralised sales and marketing function, the Group is fully integrated. The key raw materials used in the Group's primary products are sourced from the Group's mines. The Group's operations are believed to include some of the largest and most diversified production facilities in the world, which add significant value to the Group's reserves and raw materials. Through its Energy and Logistics Divisions the Group has secure access to low cost energy and reliable transport services. In addition, the Group's highly skilled and internationally experienced sales and marketing function coordinates all of the Group's external sales, facilitating operational efficiencies throughout the Group.

It has a proven track record of successfully implementing and managing a continuing programme of significant capital investment.

The Group has extensive experience in implementing and managing its significant ongoing capital investment programme to expand its operations, modernise and renew its equipment and increase its capacity. For example, through its considerable capital expenditure programme, the Iron Ore Division's production has almost doubled between 1996 and 2006. In the three years ended 31 December 2006, the Group invested US\$1,293 million in capital additions. The most significant recent capital investment is the construction of the aluminium smelter in Pavlodar. Completion of the first phase of the construction of the smelter occurred in September 2007, ahead of schedule and in line with the Company's budget. The total construction cost of the smelter is estimated to be approximately US\$869 million.

Its experienced management team has a proven track record of generating growth.

The Group benefits from the significant experience of its senior and operational management teams. With an average of 21 years of metals and mining experience, the Group's senior management has a compelling track record of generating growth, both organically and through strategic acquisitions. Members of the Group's management also have a detailed knowledge of the business and political environment in Kazakhstan.

Strategy

The Group's strategy is to achieve growth as a leading natural resources group and to enhance overall value for its shareholders. The key elements of this strategy are as follows:

Maintain and improve upon the Group's low cost operations through a continued focus on improved efficiency, cost control, economies of scale and investment in new technologies.

The Group intends to pursue investments that it believes will produce significant cost savings and increase productivity. The Group's new initiatives include the installation of a second chrome pelletiser, the switch to sandy alumina production, the refurbishment of the Energy Division's turbine generator units and an upgrade to the Logistics Division's transport facilities.

Continue expansion and development of the Group's existing reserves and capacity.

The Group has extensive chrome ore, iron ore, bauxite and coal reserves. The Directors believe that the value of the Group's reserves can be maximised through expansion of its current operations. The Group has identified specific opportunities to further exploit its reserves through investment in existing facilities and construction of new facilities. The Group is implementing a short- to medium-term investment programme of approximately US\$2.8 billion through which it intends, among other things, to invest approximately US\$240 million in the Ferroalloy Division's Aksu ferroalloy plant to install an additional 700 kilotonne per annum chrome pelletiser and construct new furnaces to produce an additional 200,000 tonnes of high carbon ferrochrome per annum from 2011; approximately US\$800 million to US\$900 million to increase the Iron Ore Division's pellet plant capacity and install a 1.8 million tonne per annum DRI plant; and approximately US\$240 million to expand the Alumina and Aluminium Division's alumina production capacity by up to 300,000 tonnes per annum and convert to sandy alumina production.

Expand the Group's asset portfolio and footprint in the region's natural resources sector.

The Group holds a leading position in Kazakhstan's natural resources sector and intends to focus its asset development in Kazakhstan and the surrounding regions, which are generally rich in minerals. On 4 December 2007, the Company entered into a conditional agreement to acquire (directly or indirectly) a controlling interest in the Serov Group and certain related entities, which own a chrome ore mining facility and ferrochrome smelter in eastern Russia. ENRC believes that significant further opportunities to obtain mineral resources and production operations exist in several countries in its region. The Directors believe that the Group has a competitive advantage in the region and can capitalise on its relationships and management capability to secure future growth opportunities.

Add value and increase customer diversity by expanding the Group's production portfolio.

The Group intends to broaden its customer base through the production and sale of additional downstream products. Anticipated projects include the ongoing construction of a smelter to produce aluminium and the planned construction of the Iron Ore Division's DRI plant.

Commit to high standards of corporate responsibility.

The Group strives to act as a good corporate citizen and maintain the social contract with its employees and the communities in which it operates. In addition, the health and safety of the Group's employees and the maintenance of high environmental performance standards are significant priorities. The Group intends to pursue appropriate investment opportunities to supplement and improve the Group's environmental, health and safety programs. The Group's anticipated projects include the Ferroalloy Division's investment of approximately US\$21 million in environmental improvement programmes.

Group history and background

The majority of the Group's assets were acquired through the participation of the Founders (i.e., Messrs. Patokh Chodiev, Alijan Ibragimov and Alexander Machkevitch) in the privatisation

process in Kazakhstan between 1994 and 1996. The Company is a holding company incorporated in England and Wales and was formed as part of a reorganisation in December 2006 to simplify the ownership structure of the Group's assets and to consolidate them in a single group of companies.

The Ferroalloy Division was established in 1995 when Kazchrome was formed as a joint stock company in accordance with a decree of the Government of Kazakhstan and was acquired by the Founders. Its mining operations initially comprised Kazchrome's Donskoy GOK (the "Donskoy Unit") and Kazchrome's Kazmarganets GOK (the "Kazmarganets Unit"). In 2004, to add to its manganese mining operations, the Group acquired Zhairesmsky GOK (the "Zhairesm Unit"). The Ferroalloy Division also includes the Aktobe and Aksu ferroalloy plants and the Akturbo gas power station.

The Iron Ore Division was established in 1996 through the acquisition by the Founders of SSGPO and includes primary mining operations that produce iron ore, ancillary mining operations that produce limestone, dolomite and bentonite-clay, an iron ore processing plant and a power plant.

The Alumina and Aluminium Division was established in 1996 through the merger of several mining and energy-producing enterprises and an alumina refinery. The Alumina and Aluminium Division's assets include two bauxite mining units, a limestone mine, an alumina refinery and a power station. In 2004, the Group began construction of a new aluminium smelter that is scheduled to be commissioned by 31 December 2007 with an initial annual capacity of 62,500 tonnes per annum.

The Energy Division was established in 1996 through the acquisitions of the EEC power station, and the division's open pit coal mine and maintenance business.

The Logistics Division was first established in 1999. The principal businesses of the Logistics Division are a freight forwarding company, a railway operating company and railway construction and repair businesses.

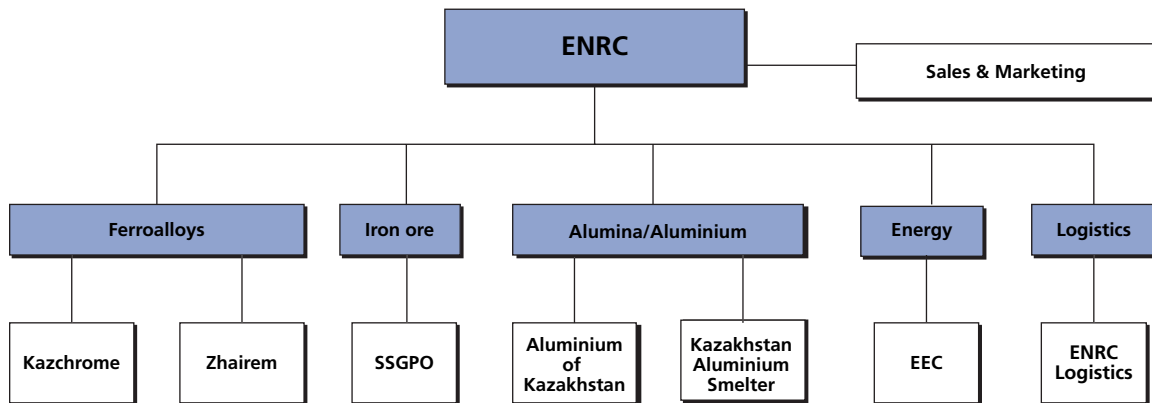
Although the Group's principal assets were acquired by the Founders in the mid-1990s, they did not comprise a single group of companies until December 2006, when the Reorganisation described in paragraph 3 of Part XIII was implemented and the Company was incorporated. Prior to this Reorganisation, the operating units currently comprising the Group were operated as standalone entities, some of which had securities listed on KASE, with their own management structures and minority shareholders (including the Kazakh government who held an interest directly in each of the principal operating subsidiaries). These operating entities were ultimately controlled by the Founders, and were informally managed on a collective basis with a number of other non-Group businesses owned or controlled by the Founders. Prior to the Reorganisation, the operations now comprising the Group focused on developing the businesses within Kazakhstan and the International Mineral Resources B.V. and its subsidiaries (the "IMR Group") focused on acquiring and operating natural resources businesses outside of Kazakhstan.

As a result of the Reorganisation, which concluded in December 2006, the Company became the holding company of the Group and the ownership structure was simplified, *inter alia*, so that the interests held by the Kazakh government in the Group's operating subsidiaries were exchanged for a shareholding in the Company. Following the Reorganisation, a number of executives, including Dr. Johannes Sittard and Mr. Jim Cochrane, who had previously worked for both the IMR Group and Group entities, ceased to have an executive function with the IMR Group.

Following the Reorganisation, in addition to continuing to grow and develop its Kazakh operations, the Group decided to pursue a strategy of regional expansion and on 4 December 2007, entered into a conditional agreement to acquire the IMR Group's interest in the Serov Group (a ferrochrome producer in eastern Russia) and certain related entities.

The Founders have agreed, under the relationship agreements described in Part IX, to offer the Group a right of first refusal in respect of any new business opportunities that they (or entities controlled by them, including the IMR Group), have within the natural resources sector (other than oil, gas and water) in Kazakhstan, Russia, China, Mongolia, Uzbekistan, Turkmenistan, Kyrgyzstan and/or Tajikistan.

An overview of the current Group structure and its key operating subsidiaries is as follows:



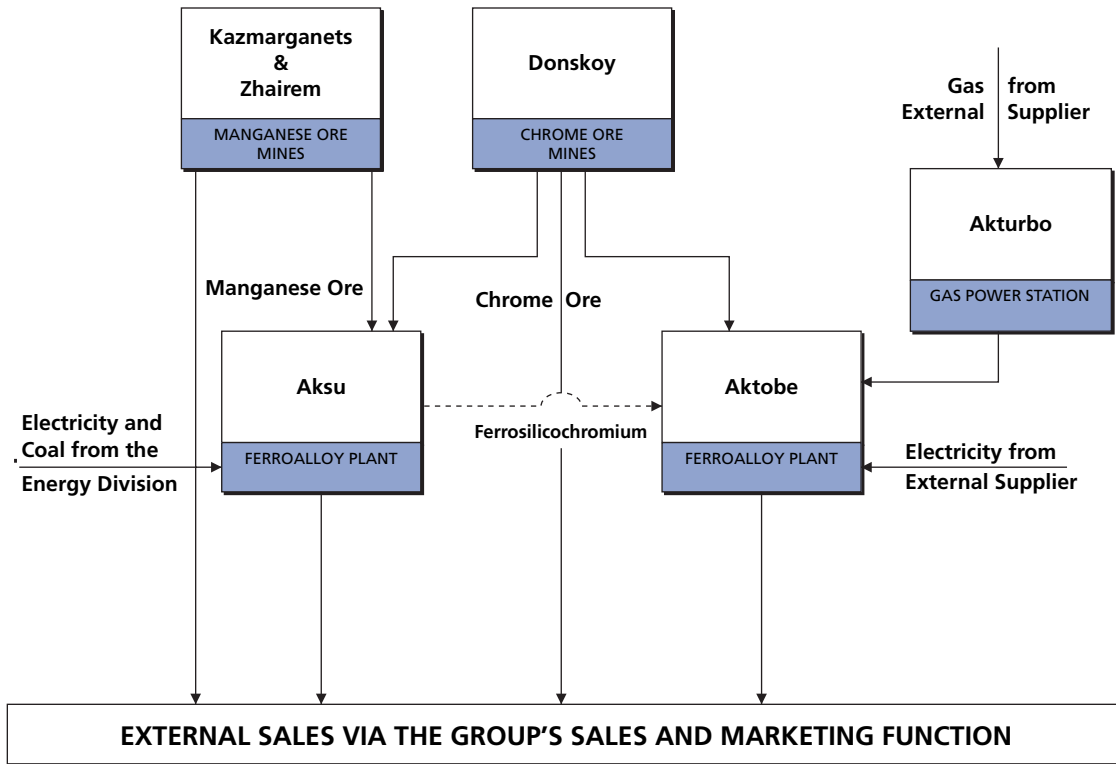
Description of the Group's operations

The Ferroalloy Division

Overview

The Group's Ferroalloy Division produces and sells high-carbon ferrochrome (including speciality grades such as low-phosphorus ferrochrome), medium- and low-carbon ferrochrome and other alloys including ferrosilicochrome, ferrosilicomanganese and ferrosilicon, as well as chrome and manganese concentrate. The Ferroalloy Division is vertically integrated: it owns and operates chrome ore mines in northwest Kazakhstan and manganese ore mines in central Kazakhstan and processes ore from its mines into ferroalloys at its Aksu and Aktobe Plants. The Logistics Division transports a significant portion of the chrome ore and manganese ore to the Ferroalloy Division's two ferroalloy plants. A significant portion of the energy used by the Aksu and Aktobe Plants is supplied by intra-Group sources. The Ferroalloy Division sells its ferroalloys primarily to steel producers and sells the remaining chrome and manganese ore to third-party ferroalloy producers and the chemical industry.

The following diagram illustrates the vertical integration between the mining and production units that comprise the Ferroalloy Division, and the Ferroalloy Division’s integration with the remainder of the Group:



The following table sets out selected financial information for the Ferroalloy Division for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. The information has been extracted without material adjustment from the “Financial information” in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See “Note 4, Segment information” in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007.

	Year ended 31 December						Six months ended 30 June	
	2004		2005		2006		2007	
US\$ in millions		% of Total Group		% of Total Group		% of Total Group		% of Total Group
Revenue	1,287	47.8%	1,377	46.7%	1,473	45.2%	917	49.4%
Adjusted EBITDA	669	44.5%	606	44.5%	547	43.6%	405	50.8%
Adjusted EBITDA Margin	52.0%		44.0%		37.1%		44.2%	

The Ferroalloy Division has several strategic advantages over its major competitors. First, Kazakhstan’s geographic location provides the Group with access to the rapidly growing Russian and Chinese markets at relatively low transportation costs. Second, according to Heinz H. Pariser estimates, based on 2006 data the Ferroalloy Division is the largest producer of ferrochrome on a chrome content basis, in the world. Third, as described below in “ENRC’s Competitive Position”, the Group is located at the bottom of the ferrochrome cost curve on a chrome content basis, well below the industry average. This cost advantage is driven, in part, by the relatively low cost of electricity consumed by the Group’s ferroalloy plants, which results from the generation of a significant proportion of that electricity from within the Group and the relatively low cost of procuring energy in Kazakhstan.

The Group’s high quality chrome ore reserves are believed to have a higher percentage chrome content than those of other large-scale producers. The higher chrome content renders Kazakh

ferrochrome more attractive to stainless steel producers that want to limit waste products and carbon content. Finally, the Group can manufacture a wide range of products and reach diverse customers because of its ability to produce both high-, medium- and low-carbon ferrochrome and speciality grades of ferrochrome, such as low-phosphorus.

The following table sets out the production volumes for each of the Ferroalloy Division's principal saleable products for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007. The information set out below (other than the footnote) has been extracted and summarised without material adjustment from the "MER" in Annex A.

Product (in kilotonnes)	Year ended 31 December			Six months ended
	2004	2005	2006	30 June 2007
Chrome ore ⁽¹⁾	3,320	3,580	3,410	1,887
Manganese ore	825	731	862	442
Ferroalloys:				
High-carbon ferrochrome	887	956	963	540
Medium- and low-carbon ferrochrome	73	72	77	34
Ferrosilicochrome	91	85	103	63
Ferrosilicomanganese	137	155	203	77
Ferrosilicon	62	62	51	17
Total Ferroalloy	1,249	1,330	1,398	730

(1) A proportion of the Ferroalloy Division's chrome ore is consumed in the production of the division's ferroalloys. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, this proportion was 64.5%, 63.3%, 66.8% and 70.3% respectively.

Industry Overview

Ferrochrome and chrome ore are the two principal products in the markets in which the Ferroalloy Division operates.

Ferrochrome

Background

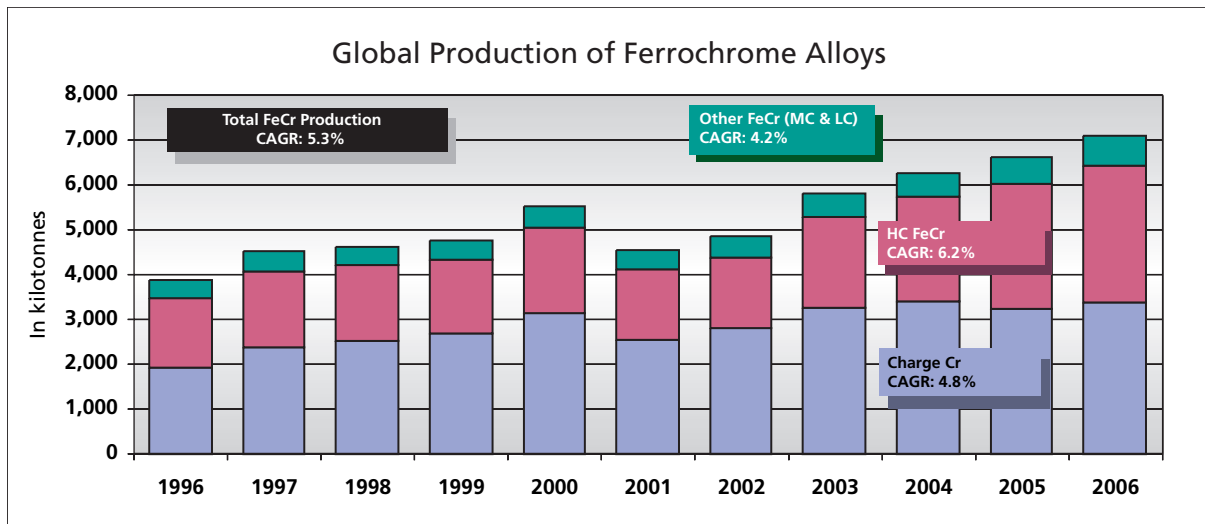
Ferrochrome production accounts for approximately 85% of the demand for chrome ore. Ferrochrome is used in the production of various types of corrosion-resistant steel because it protects the metal surface from oxidation, thereby creating corrosion resistance. Of the total volume of chrome used in steel production in 2006, approximately 67% was used in the production of stainless steel, approximately 27% was used in the production of alloy steel and approximately 5% was used in the production of other corrosion-resistant steels.

Significant uses of stainless steel include products in the construction, transport and engineering industries, consumer goods such as kitchenware and white goods, and industrial applications in piping and storage in highly corrosive environments. Low- and medium-carbon ferrochromes are used to produce stainless steel as well as alloy steels, which include high speed applications. The production of certain alloy steels and high-performance engineering alloys requires ferrochrome with a limited carbon content, as excess carbon can be difficult or costly to remove in the steel making process. Removing carbon from ferrochrome adds to production costs. As a result, low- and medium-carbon ferrochrome is more expensive to produce, but commands a premium compared to ferrochrome with a higher carbon content.

Supply and Demand

A majority of the Ferroalloy Division's revenue is derived from ferrochrome sales. Global production of ferrochrome exceeded 7.0 million tonnes in 2006. Most ferrochrome is produced in South Africa (45.3% of 2006 global production) and Kazakhstan (13.6% of 2006 production). Kazakh high-carbon ferrochrome typically has a chrome content of approximately 68%, while South African "charge chrome" typically has a chrome content of approximately 50%, and relatively higher silicon and iron contents. While the relative prices of Kazakh high-carbon ferrochrome and

charge chrome are subject to fluctuation, over the last seven years, Kazakh high-carbon ferrochrome has consistently commanded a premium when compared to charge chrome. The following chart shows global production volumes of ferrochrome alloys, including high-carbon ferrochrome, charge chrome and medium- and low-carbon ferrochrome from 1996 to 2006.

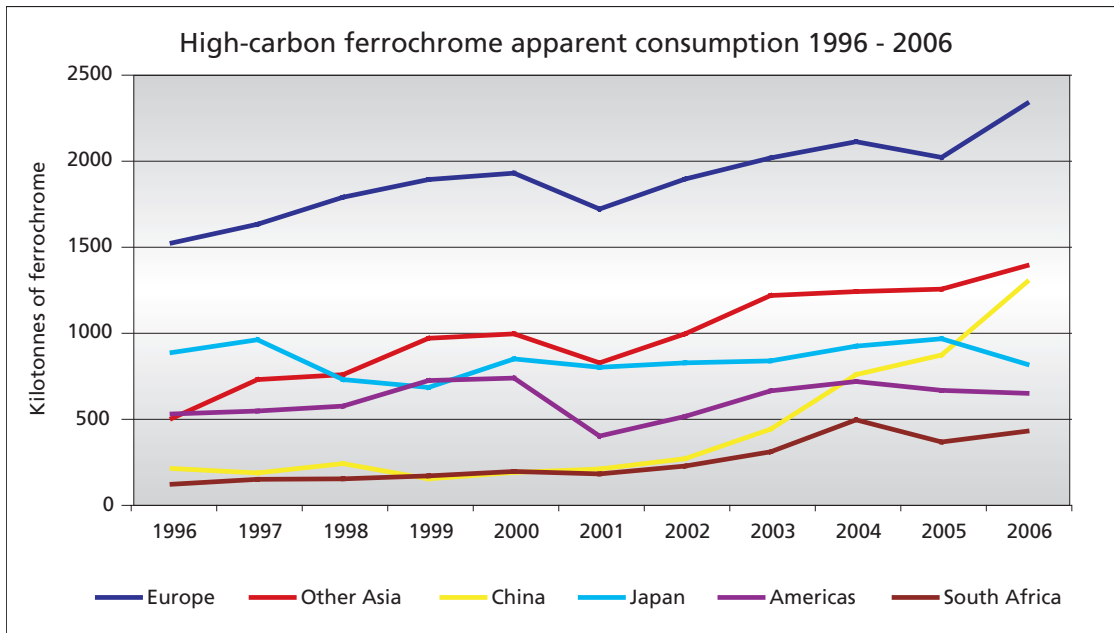


Source: Heinz H. Pariser

The supply of ferrochrome is relatively concentrated, with the top three producers accounting for approximately 50% of estimated global ferrochrome production capacity in 2007.

Ferrochrome consumption is largely determined by stainless steel production. Typically, the demand for stainless steel follows overall economic growth. Total global ferrochrome production grew at a compound annual growth rate of 5.3% between 1996 and 2006. Within this period, the growth rate of global stainless steel production fluctuated, at times significantly. In 2006, the demand for ferrochrome grew significantly, increasing by 12.6% from 2005. The rapid growth in stainless steel production in China and, to a lesser extent, India has driven the recent increase in demand for ferrochrome. Stainless steel production in China rose at a compound annual growth rate of 38.4% from 1996 to 2006.

The following chart summarises Heinz H. Pariser’s estimate of apparent consumption of high-carbon ferrochrome by region from 1996 to 2006. Apparent consumption is defined as the sum of production and net imports.

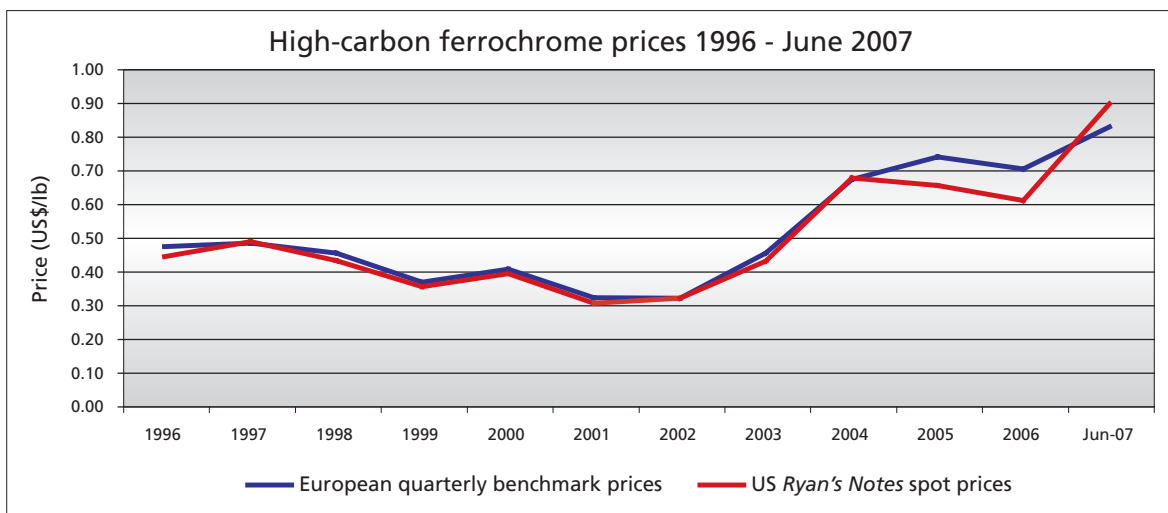


Source: Heinz H. Pariser

Heinz H. Pariser anticipates that growth in global stainless steel production and demand for high-carbon ferrochrome are likely to average approximately 5.1% and 4.1% per year, respectively, between 2007 and 2016. As a result of an anticipated rising demand for ferrochrome, Heinz H. Pariser estimates that ferrochrome producers will operate near full capacity over the next several years, and anticipates that global ferrochrome capacity utilisation will be between 90.5% and 91.9% between the years of 2007 and 2010.

Pricing

The ferrochrome markets in Europe are predominantly negotiated markets, with prices agreed on a quarterly basis and generally under long-term contracts of one to five years. In the United States, prices tend to follow those published in either of the two major industry journals, *Ryan’s Notes* and *Metals Week*. The following chart sets out the European quarterly benchmark prices and US *Ryan’s Notes* prices of ferrochrome from 1996 to 2006 and for the six months ended 30 June 2007.



Source: Heinz H. Pariser

Chrome ore

Chrome ore has four main uses: the production of ferrochrome, foundry sand, refractories and chrome chemicals. The majority of chrome ore is consumed by integrated producers who use the chrome ore internally in the production of ferrochrome. Third-party demand for chrome ore is primarily driven by non-integrated producers of ferrochrome, including those located in Russia and China.

According to Heinz H. Pariser, Southern Africa dominates chrome ore output, and India and Kazakhstan currently rank second and third, respectively, but India’s high-grade chrome ore reserves are limited, with an estimated life of less than twenty years at current production levels. The chrome ore available in Southern Africa has a lower chrome content than the chrome ore available in Kazakhstan, which is believed to have the highest chrome content in the world. Kazakh chrome ore also is naturally low in phosphorus and other elements, which facilitates production of speciality grades of ferrochrome.

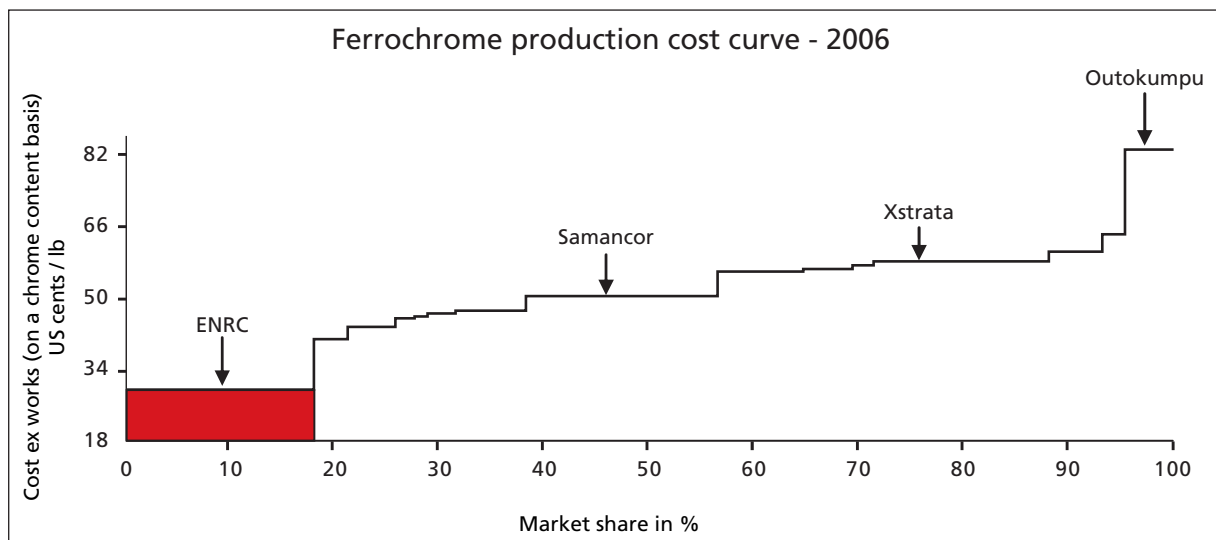
As ferrochrome production accounts for approximately 85% of the chrome ore consumed, global demand for chrome ore is linked to global demand for ferrochrome. Due to the significant increases in Chinese stainless steel production that caused global demand for ferrochrome to increase as discussed above, according to Heinz H. Pariser estimates, Kazakh chrome ore production grew at a compound annual rate of 9.8% between 1996 and 2006.

According to Heinz H. Pariser, the future supply-demand balance of chrome ore will depend on two key factors. First, India may reduce chrome ore exports to secure supply for its domestic ferrochrome producers. To this end, India, which historically has been the largest chrome ore supplier to China, recently imposed an export tax on chrome ore. Second, the amount of future South African chrome ore exports currently is uncertain. South Africa has cut back exports due to increased internal consumption, and lobbyists continue to urge the government to promote the reduction of exports in furtherance of domestic production of ferrochrome and the creation of jobs.

Chrome ore prices generally correlate to the price of ferrochrome.

ENRC’s Competitive Position

Accounting for approximately 15.6% of global production in 2006, the Ferroalloy Division was the largest ferrochrome producer in the world in 2006 on the basis of chrome content according to Heinz H. Pariser estimates. Xstrata Plc was the world’s second largest ferrochrome producer on the basis of chrome content in 2006. Other major competitors of the division include Samancor Chrome, Hernic Ferrochrome (Pty) Ltd. and Chelyabinsk Electrometallurgical Kombinat (ChEMK). In China, the Ferroalloy Division also competes with a number of smaller, non-integrated domestic producers. The following cost curve, prepared by Heinz H. Pariser, sets out cash costs by ferrochrome producer for 2006.



Source: Heinz H. Pariser

Operations and Reserves

The Ferroalloy Division's principal operating units are the Donskoy Unit, which mines chrome ore; the Kazmarganets Unit and Zhairam Unit, which mine manganese ore; and the Aksu and Aktobe Plants, which process the chrome and manganese ore into ferroalloy products that are sold to third parties.

Donskoy Unit Operations

The Donskoy Unit extracts chrome ore from two underground mines and two open pit mines in northwest Kazakhstan. The Donskoy Unit processes the ore into chrome concentrate, pellets and briquettes, which it supplies to the Aksu and Aktobe Plants for use in the production of ferroalloys, or which it sells to third-party ferrochrome producers and the chemical industry. For the year ended 31 December 2006, the Donskoy Unit mined 4.4 million tonnes of chrome ore, which was processed with an additional 1.5 million tonnes of stockpiled chrome ore into 3.41 million tonnes of saleable chrome ore, approximately 30% of which it sold to third parties.

According to Heinz H. Pariser, the Donskoy Unit's operations represent the single largest chrome ore operations in the world.

Based on SRK's ore estimates at 1 July 2007, mining is scheduled to continue for up to 42 years, with approximately 169 million tonnes of ore to be mined. Further information on the Ferroalloy Division's reserves and resources is set out in the "MER" in Annex A.

The Donskoy Unit uses block caving to extract chrome ore from its underground mines and the truck and shovel method to extract chrome ore from its open pit mines. Block caving involves undercutting large sections of ore and allowing the undercut ore to collapse under its own weight into chutes or drawpoints. Once the chrome ore is extracted from the underground and open pit mines, it is separated into low-grade ore and high-grade ore. Some high-grade ore is sold directly to customers. The remaining high-grade and low-grade ore is transported to two crushing and processing plants that process the ore into saleable chrome ore concentrate, pellets and briquettes. The Donskoy Unit's pelletiser, designed and supplied by Outokumpu in 2005, has a capacity of 700 kilotonnes per annum.

The saleable chrome ore concentrate, pellets and briquettes, as well as the extracted high-grade saleable chrome ore, are transported to two rail terminals and then transported by the Logistics Division for delivery either to the Aksu or Aktobe Plant for use in the production of ferrochrome or to third-party purchasers. Further information about the Donskoy Unit's reserves, resources and operations is set out in the "MER" in Annex A.

Donskoy Unit Reserves and Resources

The table below sets out a summary of the ore reserves and mineral resources of the Donskoy Unit's two underground mines and two open pit mines as at 1 July 2007. The reserves and resources

figures have been extracted and summarised without material adjustment from the “MER” in Annex A.

	Reserves ⁽¹⁾		Resources ^{(1),(2)}			
	Proved and Probable in millions of tonnes (dry)	Chromium Oxide (Cr ₂ O ₃) grade %	Measured and Indicated in millions of tonnes (dry)	Chromium Oxide (Cr ₂ O ₃) grade %	Inferred in millions of tonnes (dry)	Chromium Oxide (Cr ₂ O ₃) grade %
Chrome ore						
Underground						
10th Anniversary Mine	117.3	44.0	228.4	50.5	48.8	48.4
Molodezhnaya	28.2	41.6	29.7	50.9	3.7	51.0
Open Pit						
Poiskovoye	0.9	39.7	0.7	48.2	—	—
Yuzhny	3.3	41.7	2.9	48.8	—	—
Surface Sources						
Stockpiles	11.0	33.1	11.0	33.1	—	—
Tailings	8.6	29.6	8.6	29.6	—	—
Total	169.3	42.1	281.3	49.2	52.5	48.6

(1) All references to Mineral Resources and Ore Reserves are stated in accordance with the JORC Code.

(2) Mineral Resources are inclusive of Ore Reserves.

Donskoy Unit Subsurface Contract

The Donskoy Unit has one material subsurface contract with the Republic of Kazakhstan that covers subsurface use at four mines (10th Anniversary Mine, Molodezhnaya, Poiskovoye and Yuzhny). The subsurface use contract commenced on 3 March 1997 and expires on 21 March 2041.

Kazmarganets Unit and Zhairem Unit Operations

The Kazmarganets and Zhairem Units extract manganese ore from four open pit mines, and process the ore into manganese concentrate and ferromanganese concentrate, which they supply to the Aksu Plant for use in the production of ferroalloys or sell to third-party purchasers. For the year ended 31 December 2006, the Kazmarganets and Zhairem Units produced an aggregate of approximately 860,000 tonnes of manganese ore concentrate, approximately 50% of which they sold to third parties.

The Kazmarganets and Zhairem Units' manganese ore reserves are located in four open pit mines, which have estimated aggregate reserves of 24.4 million tonnes of manganese ore as at 1 July 2007. SRK estimates that the Kazmarganets and Zhairem Units' reserves are sufficient to maintain the mining operations for 12 and 16 years respectively. Further information on the Kazmarganets and Zhairem Units' reserves and resources is set out below in “Kazmarganets Unit and Zhairem Unit Reserves and Resources” and in the “MER” in Annex A.

The Kazmarganets and Zhairem Units use trucks and shovels to extract manganese ore from the open pit mines. Once the manganese ore is extracted, it is processed into manganese ore concentrate. Low-grade manganese ore concentrate is further processed at one of the Ferroalloy Division's washing and processing enrichment plants. After processing, all of the Kazmarganets manganese ore concentrate, as well as the unprocessed high-grade ore, is transported by the Logistics Division to its rail terminal for delivery to the Aksu Plant for use in the production of ferrosilicomanganese. Further information about the operations of the Kazmarganets and Zhairem Units is set out below in “Kazmarganets Unit and Zhairem Unit Reserves” and in the “MER” in Annex A.

Kazmarganets Unit and Zhairem Unit Reserves and Resources

The table below sets out the ore reserves and mineral resources of the Ferroalloy Division's manganese ore deposits as at 1 July 2007. The reserves and resources figures have been extracted

and summarised without material adjustment from the “MER” in Annex A, except for the totals shown below, which have been calculated by the Company.

	Reserves ⁽¹⁾			Resources ⁽¹⁾⁽²⁾					
	Proved and Probable in millions of tonnes (dry)	Manganese grade %	Iron grade %	Measured and Indicated in millions of tonnes (dry)	Manganese grade %	Iron grade %	Inferred in millions of tonnes (dry)	Manganese grade %	Iron grade %
Manganese ore									
Underground									
Zhairem Unit									
Ushkatyn III	—	—	—	—	—	—	50.9	21.6	7.2
Open Pit									
Kazmarganets Unit									
Vostochny Kamys	1.7	18.6	4.3	1.7	19.4	4.5	1.2	19.3	3.0
Tur	6.7	22.3	8.6	6.7	24.8	7.8	2.8	15.3	14.6
Zhairem Unit									
Ushkatyn I ⁽³⁾	—	—	—	18.7	11.7	30.6	0.4	12.2	35.2
Ushkatyn III	14.7	17.5	2.8	15.6	21.1	2.8	—	—	—
Perstnevsky	—	—	—	—	—	—	0.8	21.0	10.2
Zhomart	1.2	23.2	8.8	1.2	25.0	10.2	—	—	—
Zapadny Zhomart	—	—	—	3.6	19.1	13.3	1.3	23.9	13.7
Surface Sources									
Zhairem Unit									
Ushkatyn III/Stock									
No. 1	0.2	12.6	4.8	0.2	12.6	4.8	—	—	—
Total	24.5	19.2	4.7	47.7	17.8	15.4	57.4	21.1	7.8

(1) All references to Mineral Resources and Ore Reserves are stated in accordance with the JORC Code.

(2) Mineral Resources are inclusive of Ore Reserves.

(3) Mineral Resources from Ushkatyn I are iron manganese resources.

Kazmarganets Unit and Zhairem Unit Subsurface Contracts

The Kazmarganets and Zhairem Units have nine material contracts with the Republic of Kazakhstan that cover subsurface use. The following table sets forth the commencement and expiry dates of these subsurface contracts.

Subsurface use contracts			
Mine(s)	Operating Entity	Commencement Date	Expiry Date
Tur	Kazmarganets	24 November 1999	7 October 2021
Vostochny Kamys	Kazmarganets	15 January 1998	28 June 2018
Zhumanai	Zhairem	12 November 2001	12 November 2004 ⁽⁵⁾
Ushkatyn-III	Zhairem	7 June 1995	7 June 2015
Zapadny Zhomart	Zhairem	14 May 2001	14 May 2009 ⁽¹⁾
Ushkatyn-I	Zhairem	25 December 2001	25 December 2026 ⁽²⁾
Perstnevskiy	Zhairem	28 March 2001	28 March 2007 ⁽³⁾
Zhairem	Zhairem	7 June 1995	7 June 2015 ⁽⁶⁾
Zhomart	Zhairem	7 June 2001	7 June 2013 ⁽⁴⁾

(1) This contract was initially for a total combined exploration and production term of six years from 14 May 2001, which included a three-year period for exploration and a three-year period for production. The exploration term of this contract was extended by two years until 14 May 2006 and as such the term of the entire contract was extended until 14 May 2009. The Group has further applied for the exploration term of this contract to be extended until 31 May 2008. If the extension is granted, the whole term of the contract will expire on 31 May 2011.

(2) This contract was initially for a total combined exploration and production term of 23 years from 25 December 2001, which included a three-year period for exploration and a 20-year period for production. The exploration term of this contract was extended by two years until 25 December 2006 and as such the term of the entire contract was extended until 25 December 2026. The Group has further applied for the exploration term of this contract to be extended until 30 March 2008. If the extension is granted, the whole term of the contract will expire on 30 March 2028.

(3) This contract was initially for an exploration only term of three years from 28 March 2001. The contract has been extended twice until 28 March 2007 and the Group has further applied for the term of this contract to be extended until 30 March 2008.

- (4) This contract was initially for a total combined exploration and production term of ten years from 7 June 2001, which included a three-year period for exploration and a seven-year period for production. The exploration term of this contract was extended by two years until 7 June 2006 and as such the term of the entire contract was extended until 7 June 2013. The Group has further applied for the exploration term of this contract to be extended until 31 May 2008. If the extension is granted, the whole term of the contract will expire on 31 May 2015.
- (5) This contract has expired. The Group has applied for the exploration term of this contract to be extended until 12 November 2010.
- (6) All operations under this contract have been temporarily suspended until 2012.

Aksu Plant

The Ferroalloy Division's Aksu Plant in northeast Kazakhstan began operations in 1968, and is believed by the Directors to be one of the largest, most diversified ferroalloy production plants in the world. Operating 26 furnaces and employing approximately 6,600 personnel, the Aksu Plant produced 1.04 million tonnes of ferroalloys in 2006. The Aksu Plant receives chrome ore from the Donskoy Unit and manganese ore from the Kazmarganets Unit, and produces bulk commodity products for sale to third parties.

The Aksu Plant's furnaces are scheduled to be rebuilt on a regular basis. The Aksu Plant has rebuilt 16 of its 26 furnaces within the last eight years. In addition, the Group recently initiated an extensive refurbishment and modernisation programme at the Aksu Plant investing US\$113.1 million between 2004 and 2006.

The Aksu Plant mixes chrome ore concentrate, manganese ore and other raw materials used in the production of ferroalloys, including coke, quartzite and limestone. The ore is smelted into molten ferroalloys in the Aksu Plant's electric furnaces. The molten ferroalloys are poured into casting moulds, cooled and crushed by jaw crushers to produce the finished product. Further information about the Aksu Plant's operations is set out in the "MER" in Annex A.

The Aksu Plant generates substantial economies of scale due to its size and production volume. All of the Aksu Plant's energy requirements are satisfied by the Group's own power plants, and the Aksu Plant obtains a portion of its coke requirements from an internal coke manufacturing facility.

Aktobe Plant

The Ferroalloy Division's Aktobe Plant in northwest Kazakhstan receives chrome ore from the Donskoy Unit and processes it into ferrochrome, including special grades of high-carbon ferrochrome, and medium- and low-carbon ferrochrome, for sale to third parties. Operating 17 furnaces and employing approximately 3,300 personnel, the Aktobe Plant produced approximately 360,000 tonnes of ferroalloys in 2006.

The Aktobe Plant began operations in 1943. The Group continues to invest in the refurbishment and modernisation of the Aktobe Plant.

After the chrome ore is crushed and sized, the Aktobe Plant smelts the crushed ore into molten ferroalloys in one of its furnaces. The molten ferroalloys are poured into casting moulds, cooled and crushed to produce the finished product. Further information about the Aktobe Plant's operations is set out in the "MER" in Annex A.

The Aktobe Plant receives the majority of its electricity requirements from the Ferroalloy Division's Aktobe power station, which has a capacity of 135 MW.

Sales

The Ferroalloy Division sells its core products through the Group's sales and marketing function. In 2006, the Ferroalloy Division's top five customers accounted for 25.5% of total sales to third parties and included Taiyuan Iron and Steel (Group) Co. Ltd (6.9%) in China, Pohang Iron and Steel Company (5.8%) in South Korea, Nippon Steel Corporation (3.8%) and JFE Steel Corporation (5.5%) in Japan, and ChEMK (3.5%) in Russia.

The following table sets out the Ferroalloy Division's volume of third-party sales by product for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

Product (in kilotonnes)	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Ferroalloys:				
High-carbon ferrochrome	796	870	899	516
Medium-carbon ferrochrome	38	38	37	17
Low-carbon ferrochrome	32	31	38	17
Ferrosilicochrome	45	40	54	27
Ferrosilicomanganese	144	140	188	92
Ferrosilicon	59	45	52	17
Total Ferroalloys	1,114	1,164	1,268	686
Chrome ore	907	1,078	1,093	532
Manganese ore*	592	624	730	364

* Includes manganese concentrate and ferromanganese concentrate.

Of the Ferroalloy Division's third-party sales in 2006, 27.2% were made in Europe, 19.3% in Japan, 12.7% in China, 10.8% in the United States and 7.7% in South Korea and the Far East.

Growth in the Group's ferrochrome sales has been driven, in part, by recent growth in stainless steel production in China. Sales of the Group's ferrochrome products to China increased from no sales in 2001 to 184,000 tonnes in 2006. In 2006, 72% of the chrome ore sold by the Group to third parties was sold to ferrochrome producers, with the balance sold to the chemical industry. Manganese ore is sold to the alloy industry in China and Russia.

Key Initiatives

The Ferroalloy Division's principal strategic objectives are to increase production of ferrochrome, the division's most significant product, and to continue to reduce operating costs. To pursue these objectives the Ferroalloy Division intends to:

- Construct new furnaces at Aksu at a cost of approximately US\$160 million. This is expected to increase the Ferroalloy Division's annual ferrochrome production by more than 200,000 tonnes by 2011.
- Construct a second pelletizing plant which is expected to be commissioned by the end of 2009 and an enrichment plant at the Donskoy Unit at an aggregate cost of approximately US\$110 million (of which approximately US\$30 million is attributable to the enrichment plant). The second pelletiser is expected to increase the Ferroalloy Division's supply of chrome pellets, increasing the productivity of its furnaces. Pellets, as compared to chrome ore, increase a furnace's ferroalloy production rate and reduce electricity consumption. The Ferroalloy Division also expects the pelletiser to increase operating efficiency by lowering electricity consumption and increasing production.
- Construct a new agglomeration plant to improve recoveries at a cost of approximately US\$20 million.

On 4 December 2007, ENRC entered into a conditional agreement to acquire directly or indirectly a controlling interest in the Serov Group and certain related entities for an aggregate consideration of US\$210 million and the assumption of certain liabilities. The Serov Group owns a chrome ore mining facility and a ferrochrome smelter in eastern Russia. The smelter produces low- and medium-carbon ferrochrome, and has an annual capacity of 300,000 tonnes. The Group is the Serov Group's largest supplier of chrome ore. The Directors believe that the operations of the Serov Group will complement the Ferroalloy Division's existing business, including its low- and medium-carbon ferrochrome product range and also provide the Group with an important asset base in Russia, which supports the Group's strategy to pursue regional expansion opportunities.

Completion of this acquisition is subject to certain conditions including the acquisition by the Group of IMR Marketing A.G. and DDK Services Limited, companies affiliated with the sellers of the

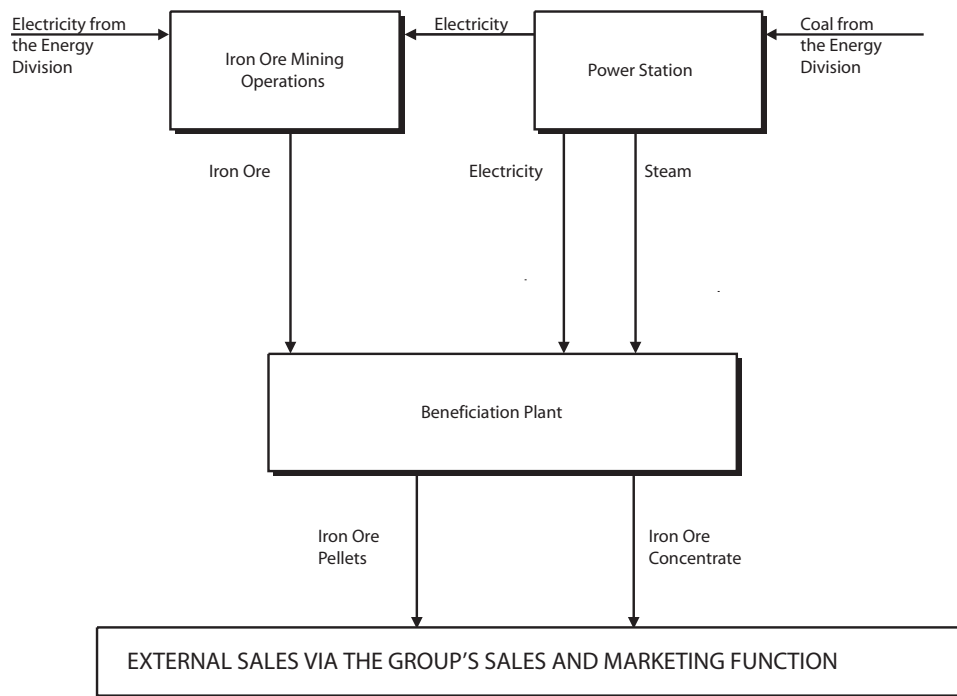
interest in the Serov Group and the receipt of necessary consents and authorisations. While the Company can provide no assurances that these conditions will be satisfied in a timely manner or at all, the Directors currently expect completion to occur in the first quarter of 2008. Further details of the terms of the acquisition agreement are set out in paragraph 15.1 of Part XIII of this Prospectus.

The Iron Ore Division

Overview

According to CRU estimates, based on 2006 data, the Group's Iron Ore Division is the sixth largest iron ore exporter by volume in the world. It mines and processes iron ore into iron ore concentrate and pellets for sale primarily to steel producers. The Iron Ore Division's operations include iron ore mines, ancillary mines that produce limestone and dolomite used in the production of pellets, an iron ore processing plant and a power plant that supplies the division with the majority of its energy needs. The Iron Ore Division's remaining energy needs are provided by the Group's Energy Division. The Iron Ore Division's operating company, SSGPO, is one of the largest companies in Kazakhstan and employs approximately 18,000 people.

The following diagram illustrates the vertical integration between the mining and production units that comprise the Iron Ore Division, and the integration between the Iron Ore Division and the remainder of the Group:



The following table sets out selected financial information for the Iron Ore Division for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007, which has been extracted without material adjustment from the “Financial Information” in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See “Note 4, Segment information” in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007.

US\$ in millions	Year ended 31 December						Six months ended 30 June	
	2004		2005		2006		2007	
	% of Total Group		% of Total Group		% of Total Group		% of Total Group	
Revenue	883	32.8%	857	29.1%	829	25.5%	457	24.6%
Adjusted EBITDA	576	38.3%	479	35.1%	323	25.7%	197	24.7%
Adjusted EBITDA Margin	65.2%		55.9%		39.0%		43.1%	

The Iron Ore Division has several significant strategic advantages over its major competitors. First, the location of the Group’s iron ore reserves in northern Kazakhstan provides access to the important customer base of steel production plants in Russia, China and Kazakhstan at relatively low logistics costs. In particular, the Group’s facilities are located within 340 kilometres of its key customer, MMK (a leading Russian steel producer), and this proximity provides significant logistical advantages. In April 2007, the Group entered into a long-term contract with MMK that extends until 2017 and requires MMK to purchase specified quantities at prices determined by reference to published world price indices. Second, the Iron Ore Division operates large-scale iron ore mines and processing plants at relatively low production costs. As described below in “ENRC’s Competitive Position”, the Group is located in the lowest third of the industry cost curve for global iron ore pellet production. This cost advantage is driven, in part, by the relatively low cost of labour in Kazakhstan and the relatively low cost of electricity consumed by the Group’s iron ore mining and processing operations, which results from the internal generation of a portion of that electricity within the Group and the relatively low cost of energy in Kazakhstan.

The following table sets out the production volumes for each of the Iron Ore Division’s principal saleable products for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007. The information set out below (except for the information relating to saleable iron ore concentrate) has been extracted without material adjustment from the “MER” in Annex A.

Product (in millions of tonnes)	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Iron ore concentrate produced	15.4	12.9	16.1	8.3
Saleable iron ore concentrate	5.2	4.7	7.0	3.6
Iron ore pellets ⁽¹⁾	9.4	7.5	8.5	4.4

(1) This excludes screenings.

Industry Overview

Background

Iron ore is used principally in the production of steel and generally is sold in four different forms: lump ore, iron ore concentrate, sinter and pellets. Sinter and pellets are processed forms of iron ore made from iron ore concentrate. Sinter can be used only in blast furnaces, whereas pellets can be used in both blast furnaces and DRI modules.

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, Australia and Brazil are the largest producers of iron ore, each accounting for around 20% of global output in 2006 based on iron content. Other significant producers include the CIS (13%) and India (10%). Global production of iron ore was 1,644 million

tonnes in 2006 as compared to 972 million tonnes in 1998. This represents a compound annual growth rate of 6.8% since 1998.

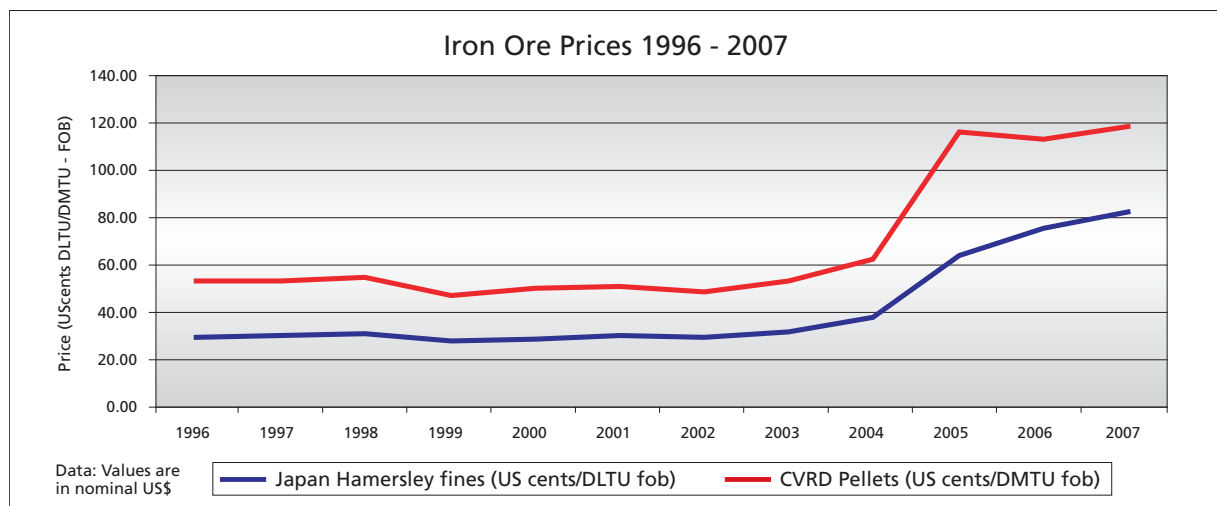
Typically, steel production and, as a result, demand for iron ore, follows overall growth in industrial production. Global demand for iron ore has increased recently, primarily as a result of the significant growth in demand for iron ore in China that cannot be satisfied domestically. Other important sources of demand include India, the Middle East, South America and the CIS.

CRU predicts that iron ore demand will remain strong in the medium-term. CRU forecasts Chinese economic growth to be between 7% and 10% per annum between 2006 and 2012, and expects this economic growth to generate an average annual increase in domestic steel production of approximately 62 million tonnes. With the quality of domestic Chinese iron ore declining, it is anticipated that China will become more dependent on imported iron ore. CRU expects increasing demand for iron ore to continue in other parts of Asia as well.

CRU anticipates that iron ore supply will struggle to meet rising demand until 2009. Thereafter, it expects more significant increases in supply as expansions planned by three major iron ore producers are completed in Brazil and Australia and new producers in these countries enter the iron ore market.

Pricing

Generally, iron ore prices are negotiated on an annual basis and tend to follow international benchmark prices such as Hamersley Iron Pty Ltd iron fines and Companhia Vale do Rio Doce (“CVRD”) pellets, as quoted in *The TEX Report*. In the short term, CRU expects a significant increase in demand and prices to remain robust. The chart below sets forth the price of iron ore from 1996 to 2007.

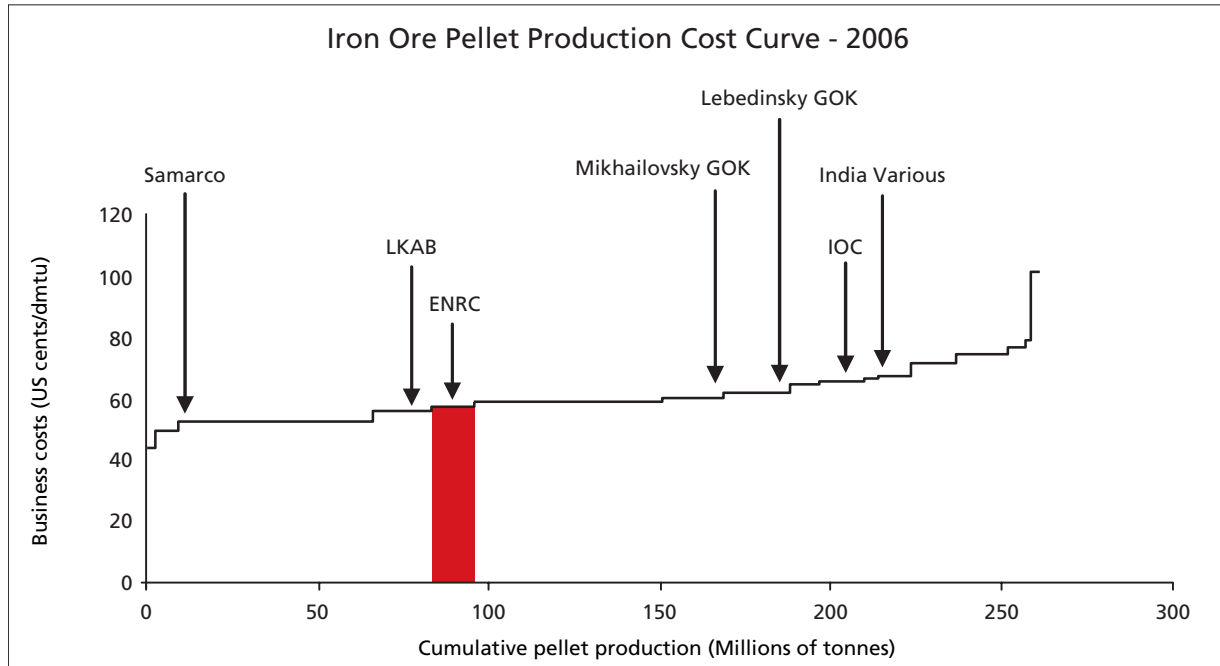


Source: CRU

ENRC’s Competitive Position

According to CRU estimates, based on 2006 data, the Group is the largest producer of iron ore concentrate and pellets in Kazakhstan, and the sixth largest exporter by volume in the world. It exports approximately 70% of its iron ore concentrate and pellets (including screenings) to Russian metal producers. Two of its main competitors in the Russian market are JSC Lebedinsky GOK and JSC Mikhailovsky GOK. The Group’s other key competitors for non-seaborne trade include Ferrexpo Poltava Mining in Ukraine and domestic Chinese producers.

As shown in the cost curve prepared by CRU below, iron ore pellet production costs vary significantly among producers. As iron content declines, producers must extract higher quantities of iron ore to obtain the same quantity of iron.



Source: CRU

Operations and Reserves

Iron Ore Mining Operations

The Iron Ore Division extracts and processes iron ore from five open pit mines and one underground mine, which are located near Rudni, in northern Kazakhstan. All of the extracted iron ore is supplied to the Iron Ore Division’s processing plant in Rudni to be processed into iron ore concentrate and pellets. For the year ended 31 December 2006, the Iron Ore Division extracted 38.8 million tonnes of iron ore (12.6 million tonnes of iron content).

Based on SRK’s ore estimates at 1 July 2007, mining is scheduled to continue for up to 31 years, with approximately 1,360 million tonnes of ore to be mined. Further information on the Iron Ore Division’s reserves and resources is set out below in “Reserves and Resources” and in the “MER” in Annex A.

The Iron Ore Division uses blasting and truck and shovel technology to extract iron ore at its open pit mines and various sub-level caving methods at its underground mine.

Reserves and Resources

The table below sets out the Iron Ore Division's iron ore reserves and resources as at 1 July 2007. The figures have been extracted and summarised without material adjustment from the "MER" in Annex A.

	Reserves ⁽¹⁾		Resources ⁽¹⁾⁽²⁾			
	Proved and Probable in millions of tonnes (dry)	Iron grade %	Measured and Indicated in millions of tonnes (dry)	Iron grade %	Inferred in millions of tonnes (dry)	Iron grade %
Iron Ore						
Underground						
Sokolovsky	248.3	31.8	1,184.9	39.5	275.6	42.3
Open Pit						
Sokolovsky	36.1	33.5	35.6	34.5	11.1	26.6
Sarbaisky	121.1	35.6	862.2	37.4	157.9	38.8
Yuzhny Sarbaisky	142.9	44.4	229.3	45.0	116.2	48.1
Kacharsky	864.4	37.1	1,203.5	38.0	278.4	33.2
Korzhinkol'skoye	91.7	36.4	130.9	42.2	51.9	40.1
Total	1,504.6	36.7	3,646.5	38.9	891.2	39.3

(1) All references to Mineral Resources and Ore Reserves are stated in accordance with the JORC Code.

(2) Mineral Resources are inclusive of Ore Reserves.

Subsurface Contract

The Iron Ore Division has one material subsurface contract with the Republic of Kazakhstan. The contract regulates extraction of iron ore from the Sokolovsky, Sarbaisky, Kacharsky and Korzhinkol'skoye open pit mines and the Sokolovsky underground mine. The term of the contract extends from 6 February 1997 to 10 May 2015.

Other Mining Operations

The Iron Ore Division operates three ancillary mines that extract limestone, dolomite and bentonite-clay, which are used internally to produce iron ore pellets and are also sold to third parties.

Processing Plant

All of the Iron Ore Division's iron ore is processed into iron ore concentrate and pellets at a central processing plant located in northern Kazakhstan that was built between 1967 and 1971. In 2006, the plant produced 16.1 million tonnes of iron ore concentrate of which 7.0 million tonnes were retained for sale and the balance was used to produce 8.5 million tonnes of iron ore pellets. The Iron Ore Division has invested US\$11.5 million and plans to invest a further US\$9.0 million in the processing plant to replace its existing crushers with high performance modern crushers, which considerably reduce the time needed for regular maintenance and improve process control. In addition, the Iron Ore Division intends to upgrade the processing plant's other equipment and expand the plant as described below in "Key Initiatives".

The processing plant performs all stages of iron ore processing. First, the ore is crushed down. Next, low iron content ore, or tailings, is extracted from high iron content ore by dry magnetic separation.

The remaining iron ore concentrate has an iron ore content of approximately 66%. Approximately 40% is sold in this form while the remainder is processed into pellets. To produce the pellets, clay and limestone are added to the iron ore concentrate and rolled in balling drums into marble-sized pellets of 10 to 16 mm in diameter. The pellets are then roasted in one of the processing plant's twelve ovens. After cooling, the iron ore pellets are ready for sale.

Power Station

The Iron Ore Division operates a thermal power station with a capacity of 204 MW. In 2006, the power station provided approximately 60% of the total electricity required by the Iron Ore Division. The power station also supplies heating to the local town of Rudni. The remainder of the Iron Ore Division's 2006 power requirements were met by the Group's Energy Division.

Further information about the Iron Ore Division's operations is set out in the "MER" in Annex A.

Sales

The Iron Ore Division sells its core products, iron ore concentrate and pellets, through the Group's sales and marketing function. In 2006, 30% of the Iron Ore Division's revenue was derived from iron ore concentrate sales and 65% from iron ore pellet sales. The Iron Ore Division's largest customer is MMK, a leading Russian steel producer. 49.2% of the Iron Ore Division's revenue for the year ended 31 December 2006 and 65.6% of its revenue for the six months ended 30 June 2007 were derived from MMK.

The Iron Ore Division also supplies iron ore concentrate and pellets, including screenings, to a number of other steel producers in Kazakhstan, Russia and China. Of the 16.5 million tonnes of iron ore concentrate and pellets, including screenings, sold in 2006, 63.9% was sold to MMK in Russia, 26.8% was sold to customers in China and 6.5% was sold to customers in Kazakhstan. Of the 8.1 million tonnes of iron ore concentrate and pellets, including screenings, sold in the six months ended 30 June 2007, 74.7% was sold to MMK in Russia, 17.6% was sold to customers in China and 7.7% was sold to customers in Kazakhstan.

The following table sets out the Iron Ore Division's volume of third party sales by product for the years ended 31 December 2004, 2005 and 2006, and for the six months ended 30 June 2007.

Product (in kilotonnes)	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Iron ore concentrate	5,162	4,393	6,911	3,568
Iron ore pellets ⁽¹⁾	9,564	7,420	9,561	4,506

(1) These include screenings.

Key Initiatives

The Iron Ore Division's principal strategic objectives are to increase mining, concentrating and pelletising capacities and expand its customer base through diversification of its product portfolio. To pursue these goals, the Iron Ore Division plans to:

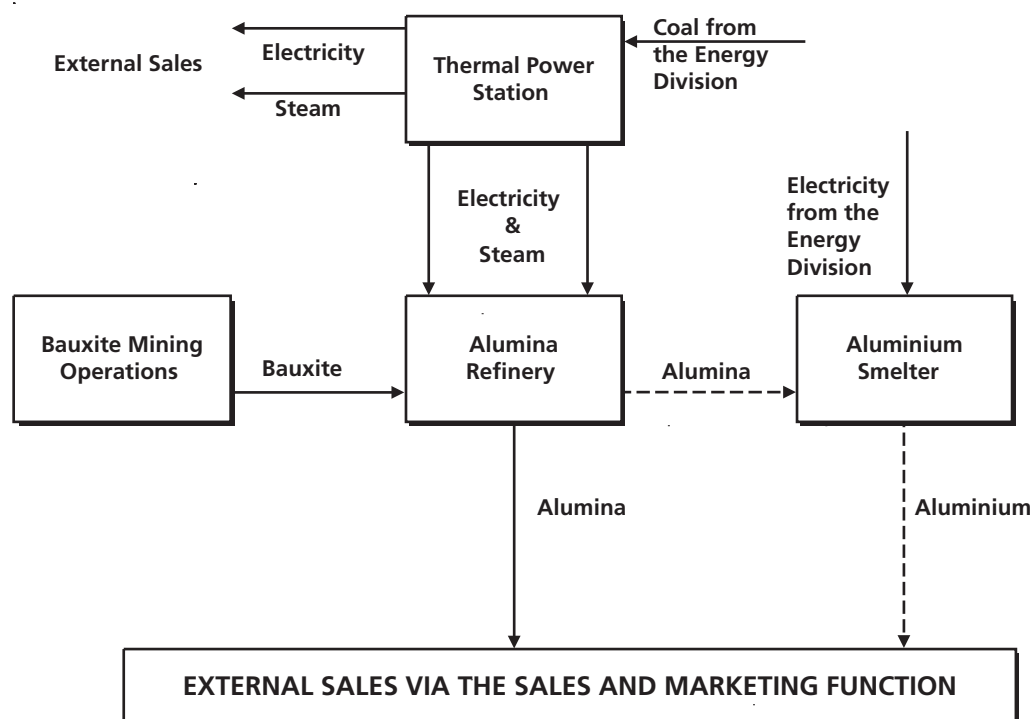
- expand mining operations and increase iron ore concentrate capacity by approximately 4.0 million tonnes per annum by 2010, through the investment of US\$320 million; and
- construct a 1.8 million tonne per annum DRI plant and 5.0 million tonne per annum iron ore pelletiser for approximately US\$800 to US\$900 million (on the basis of current estimates, which are subject to change depending on the process technology ultimately selected). DRI is a higher value product and has a broader customer base than the Group's existing iron ore products because, compared to concentrate or pellets, it is cheaper to transport long distances relative to its price and can be used in electric furnaces. Construction is planned to commence by 2008 and is currently scheduled to be completed by 2011.

The Alumina and Aluminium Division

Overview

The Group's Alumina and Aluminium Division currently produces and sells alumina. The division sells the alumina, which it produces from mined bauxite, primarily to the Russian aluminium producer, UC RUSAL, pursuant to a long-term contract. The Alumina and Aluminium Division's operations are vertically integrated and consist of two bauxite mining units, a limestone mine, a

power station and an alumina refinery. For the year ended 31 December 2006, the Group mined 4.9 million tonnes of bauxite and produced 1.5 million tonnes of alumina. In addition, the Group is constructing an aluminium smelter, which is scheduled to be commissioned by 31 December 2007. The following chart illustrates the vertical integration among the mining and production units that comprise the Alumina and Aluminium Division and its integration with the rest of the Group:



The following table sets out selected financial information for the Alumina and Aluminium Division for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007, which has been extracted without material adjustment from the “Financial information” in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See “Note 4, Segment information” in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006, and for the six months ended 30 June 2007.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	
US\$ in millions	% of Total Group	% of Total Group	% of Total Group	% of Total Group	
Revenue	376	448	602	324	
	14.0%	15.2%	18.5%	17.5%	
Inter-segment revenue	8	12	10	1	
Segment revenue ⁽¹⁾	384	460	612	325	
Adjusted EBITDA	186	182	277	132	
	48.4%	39.6%	45.3%	40.6%	
Adjusted EBITDA Margin					

(1) Including inter-segment revenue.

The Directors believe that the Alumina and Aluminium Division has several strategic advantages over its major competitors. First, the Group’s bauxite reserves provide a reliable supply of the principal raw material for the production of alumina and aluminium. Second, the Alumina and Aluminium Division has integrated energy operations that supply it with a reliable and cost-effective source of energy. Third, the location of the Group’s operations provides access to the Russian market, where CRU expects alumina demand to continue to exceed supply for at least the next five years. In particular, the Alumina and Aluminium Division’s proximity to its key customer, UC RUSAL, a leading Russian aluminium producer, provides significant logistical advantages. The Group has a long-term contract with UC RUSAL that extends until 2016 and provides for UC RUSAL

to purchase specified quantities of alumina at prices determined by reference to a percentage of London Metal Exchange (“LME”) prices for aluminium. Fourth, the Group is a low-cost alumina producer. As described below in “ENRC’s Competitive Position”, the Group is located in the lowest quartile of the alumina cost curve. This cost advantage is driven, in part, by the internal supply of bauxite, the relatively low cost of labour in Kazakhstan and the relatively low cost of electricity consumed by the Group’s bauxite mining and alumina processing operations.

The following table sets out the production volumes of the Alumina and Aluminium Division’s principal saleable product for the three years ended 31 December 2004, 2005 and 2006, and for the six months ended 30 June 2007. The information set out below has been extracted without material adjustment from the “MER” in Annex A.

Product (in millions of tonnes)	Year ended 31 December			Six months ended
	2004	2005	2006	30 June 2007
Alumina	1.5	1.5	1.5	0.8

Industry Overview

Alumina

Background

Alumina is the primary raw material used in the production of aluminium. Alumina is produced by separating aluminium oxide from bauxite. Generally, between two and three and a half tonnes of bauxite are required to produce a tonne of alumina, depending on the quality of the bauxite and the production method employed. Approximately 90% of global alumina production is used for metallurgical purposes.

Supply and Demand

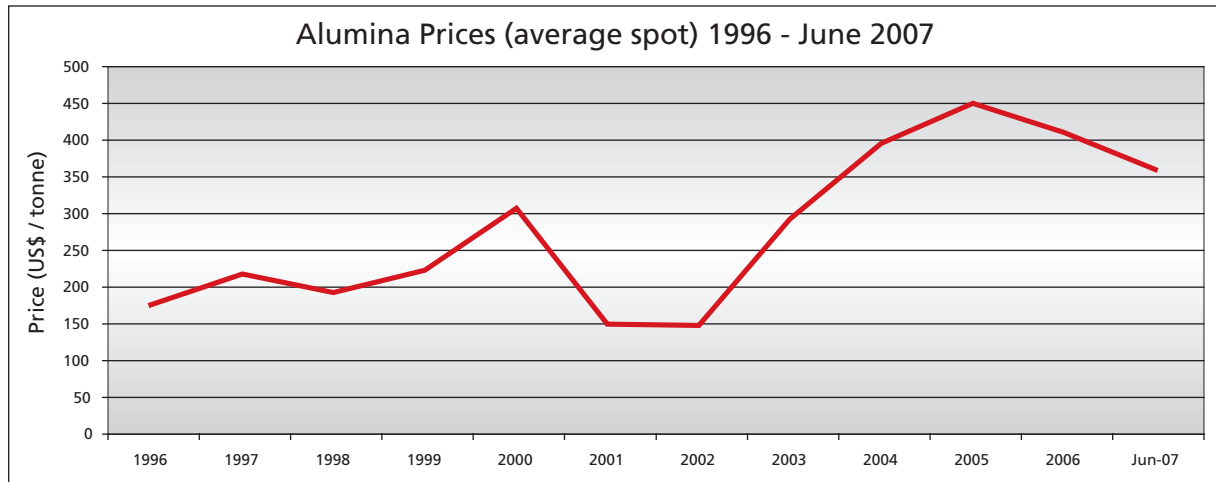
The majority of the world’s alumina is believed to be manufactured by integrated producers for internal consumption in their own aluminium smelters. The former Eastern Bloc, Australasia, Latin America and China are the largest producers of alumina, together accounting for approximately 92% of global alumina production in 2006. Global alumina production increased from 53.3 million tonnes in 2000 to 73.8 million tonnes in 2006. A large proportion of the new capacity has come from brownfield expansions. CRU forecasts that global alumina production will rise to 91.6 million tonnes by 2011, primarily driven by new capacity at greenfield and brownfield sites in China.

Global alumina demand increased significantly between 2000 and 2006. This was driven by increased aluminium production and the related demand for alumina in China. CRU predicts that global alumina demand will continue to grow, from 66.2 million tonnes in 2006 to an expected 84.5 million tonnes in 2011 (which is a compound annual growth rate of 5%), driven primarily by growth in China. CRU anticipates that demand for alumina will also increase in the Middle East, Latin America and the CIS.

Between 2007 and 2011, CRU expects that the global alumina market will remain oversupplied due to the volume of new alumina capacity, which is expected to exceed forecasted global demand. Demand for alumina in the CIS, however, is expected to continue to exceed supply. In 2006, there were five alumina refineries operating in Russia with a total capacity of almost 3.4 million tonnes, which represented approximately half of the total CIS alumina capacity. The CIS is estimated to have produced 6.4 million tonnes of metallurgical alumina in 2006. In contrast to the oversupplied global market, CIS alumina production was insufficient to meet alumina demand from the local aluminium industry and the CIS had an alumina supply deficit of nearly 2 million tonnes in 2006. CRU expects the deficit in the CIS to rise to 4.3 million tonnes over the next five years because the pace of new aluminium smelting capacity expansion in the region, including the Group’s new aluminium smelter, will outpace new alumina refining capacity.

Pricing

Alumina is generally priced in one of two ways, either on a spot basis by reference to aluminium prices at a fixed price for a specific period of time (usually one year), or on the basis of a formula related to the LME price for aluminium. The following chart sets out the spot price of alumina from 1996 to 2006 and for the six months ended 30 June 2007.



Source: CRU

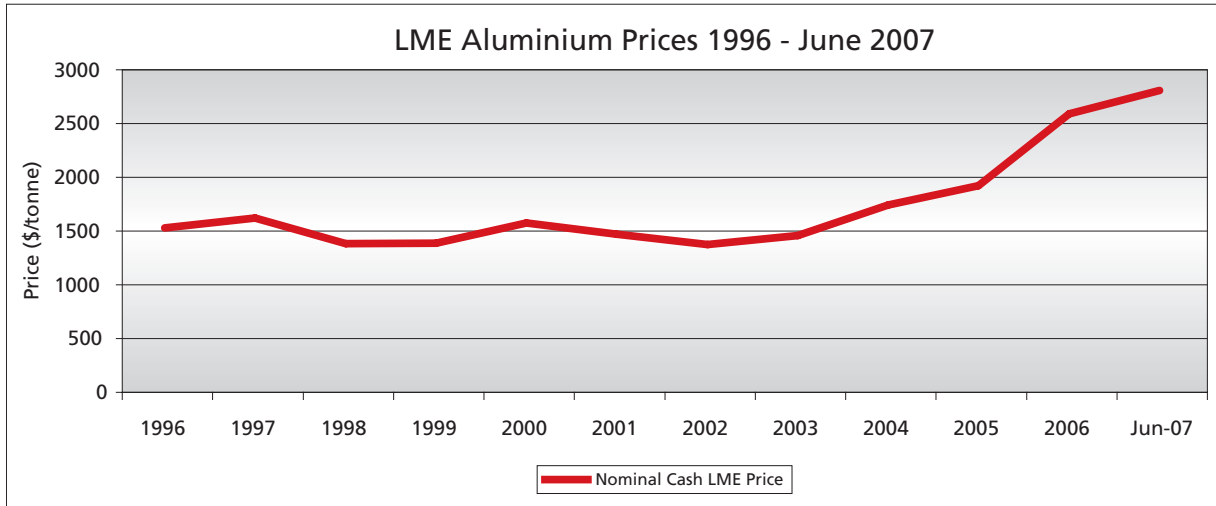
Aluminium

Aluminium is produced by separating alumina into its constituent elements of aluminium and oxygen. Significant first-use aluminium products include flat-rolled products, extensions, castings and wire and cable. Significant areas of end-use consumption of aluminium include the transport sector, building, construction and packaging. Major producing countries include Brazil, Canada, China and Russia. The largest aluminium producers are Rio Tinto plc, Alcoa Inc., Aluminium Corporation of China and UC RUSAL. Global aluminium production increased from 26.0 million tonnes in 2002 to 34.0 million tonnes in 2006 driven primarily by growth in Chinese production.

Global primary aluminium consumption increased 37.6% from 25.0 million tonnes in 2000 to 34.4 million tonnes in 2006 supported primarily by increasing demand in China. CRU forecasts that aluminium consumption will continue to rise, from 31.9 million tonnes in 2005 to 57.5 million tonnes in 2020, which represents a compound annual growth rate of approximately 3.4%. CRU expects growth in China to account for 13.0 million tonnes of the increase in consumption, with other significant growth likely to take place in North America, the European Union and Asia.

However, the expectation is that production may exceed consumption for the next four years due to additional capacity coming online, particularly in China and the Middle East.

Aluminium is traded on the LME and, as such, contracts are priced almost exclusively on the basis of LME prices. The following chart sets out the average annual aluminium price on the LME between 1996 and 2006 and the average price for the six months ended 30 June 2007.

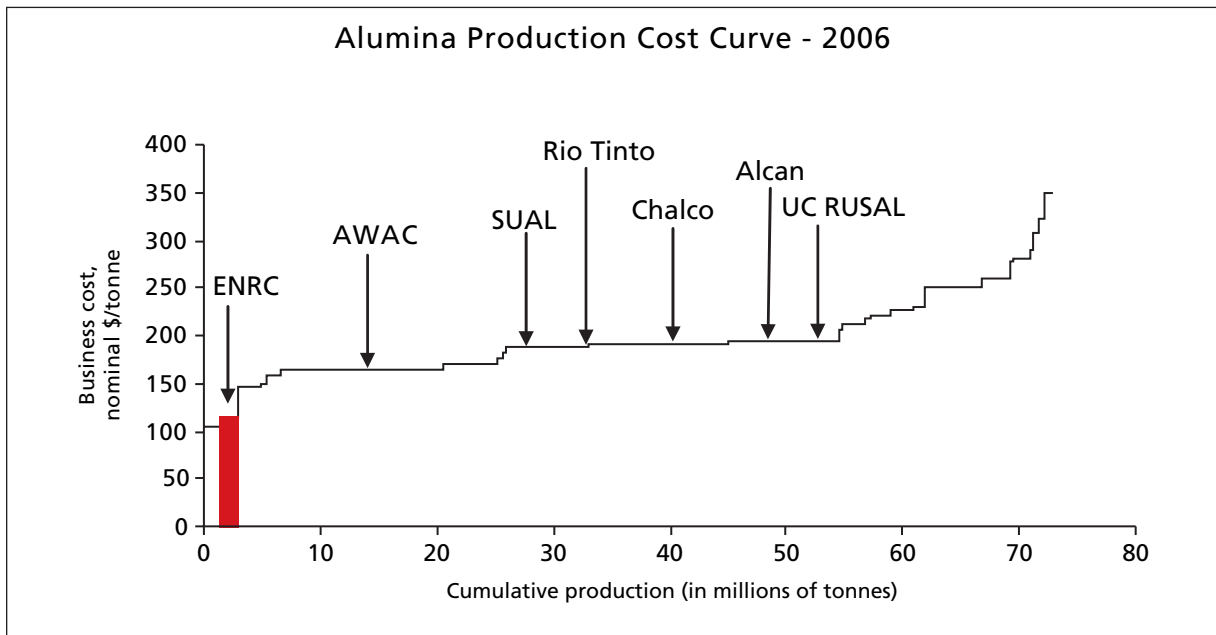


Source: London Metal Exchange

ENRC's Competitive Position

According to CRU estimates, based on 2006 data, the Alumina and Aluminium Division is the fifth largest supplier of traded alumina by volume in the world. The Alumina and Aluminium Division's alumina sales comprised 2.28% of the 66.2 million tonnes of 2006 global metallurgical alumina demand, and the division was located in the lowest quartile of a cost curve produced by CRU.

The following chart sets out alumina production and cash costs of production by producer in 2006.



Source: CRU

Operations and Reserves

Mining Operations

The Alumina and Aluminium Division extracts bauxite from the Krasno-Oktyabrskoye and Torgay Units, which have four open pit mines and one open pit mine, respectively. Limestone is also extracted from one other mine located in northern Kazakhstan. The bauxite and limestone are used primarily by the division's Pavlodar alumina refinery to produce alumina for sale to third-party aluminium producers. For the year ended 31 December 2006, the Alumina and Aluminium Division extracted approximately 4.9 million tonnes of bauxite, of which 4.2 million tonnes were extracted from the Krasno-Oktyabrskoye Unit's open pit mines.

Based on SRK's ore estimates at 1 July 2007, mining is scheduled to continue at the Krasno-Oktyabrskoye Unit for over 35 years, with approximately 192 million tonnes of ore to be mined. Further information on the Krasno-Oktyabrskoye Unit's reserves and resources is set out in the "MER" in Annex A.

In 2006, 0.7 million tonnes of bauxite were extracted from the Torgay Unit's open pit mines. SRK estimates that the Torgay mines' bauxite reserves are sufficient to maintain current production levels for 10 years. Further information on the Torgay Unit's open pit mine reserves and resources is set out in the "MER" in Annex A.

The Alumina and Aluminium Division uses blasting and trucks and shovels to extract the bauxite and limestone from its mines. The bauxite is homogenised and crushed, and delivered by the Logistics Division to the Pavlodar Alumina Refinery by railway.

Reserves and Resources

The table below sets out the reserves and resources of the Alumina and Aluminium Division's open pit bauxite mines as at 1 July 2007. The reserves and resources figures have been extracted and summarised without material adjustment from the "MER" in Annex A, except for the totals shown below, which have been calculated by the Company.

	Reserves ⁽¹⁾			Resources ⁽¹⁾⁽²⁾					
	Proved and Probable in millions of tonnes (dry)	Aluminium Oxide grade %	Silicon Dioxide grade %	Measured and Indicated in millions of tonnes (dry)	Aluminium Oxide grade %	Silicon Dioxide grade %	Inferred in millions of tonnes (dry)	Aluminium Oxide grade %	Silicon Dioxide grade %
Bauxite									
Krasno-Oktyabrskoye Unit									
Krasno-Oktyabrskoye	95.4	43.1	11.8	101.0	43.5	11.1	—	—	—
Belinskoye	14.5	41.6	9.7	15.5	41.9	8.9	—	—	—
Ayatskoye	7.1	44.4	9.8	7.5	44.9	9.0	—	—	—
Vostochno-Ayatskoye	40.3	43.9	8.8	42.6	44.3	7.9	0.1	42.2	6.3
Torgay Unit									
Amangeldinsk	5.2	43.3	14.6	6.5	44.3	15.4	2.5	46.2	15.7
Total	162.5	43.3	10.8	173.1	43.6	10.2	2.6	46.0	15.3

(1) All references to Mineral Resources and Ore Reserves are stated in accordance with the JORC Code.

(2) Mineral Resources are inclusive of Ore Reserves.

Subsurface Contracts

The Krasno-Oktyabrskoye and Torgay Units have the following material contracts with the Republic of Kazakhstan that cover subsurface use. The following table sets forth the commencement and expiry dates of these subsurface contracts.

Operating Unit	Subsurface use contracts	
	Commencement Date	Expiry Date
Krasno-Oktyabrskoye Unit		
Krasno-Oktyabrskoye ⁽¹⁾	21 January 1997	21 January 2017
Belinskoye ⁽¹⁾	21 January 1997	21 January 2017
Ayatskoye ⁽¹⁾	21 January 1997	21 January 2017
Vostochno-Ayatskoye	26 July 2006	26 July 2031
Torgay Unit		
Amangeldinsk	21 January 1997	21 January 2017

(1) The Krasno-Oktyabrskoye, Belinskoye and Ayatskoye mines are regulated by one subsurface use contract.

Pavlodar Alumina Refinery

All of the Alumina and Aluminium Division's bauxite is processed into alumina at its Pavlodar alumina refinery located in northern Kazakhstan. As a result of significant investment and reconstruction between 1994 and 2005, the refinery's capacity was expanded to 1.5 million tonnes of alumina per year from 1.0 million tonnes per year. In 2006, the plant operated at full capacity, and the Group plans further expansion to increase capacity to 1.8 million tonnes of alumina per year by 2011. The refinery receives all of its electricity from the Alumina and Aluminium Division's power station.

The alumina refinery uses a combined Bayer-sintering process to produce alumina. The Bayer process extracts alumina content from the bauxite, and the sintering process extracts an additional amount of alumina and reduces soda losses. In the Bayer process, the refinery first crushes and mills the bauxite to make the alumina more accessible. Second, the refinery mixes the bauxite with a caustic solution into a slurry that is processed in a heated pressure digester. The digestion process results in a liquor containing a solution of sodium aluminate and "red mud," which is composed of undissolved bauxite residues containing iron, silicon and titanium. The refinery washes the red mud with hot water to recover and recycle some of the caustic solution. The remaining red mud is used in the sintering process, which is described below. To complete the Bayer process and form alumina, the refinery allows the sodium aluminate liquor to thicken and cool, pumps the liquor into a precipitator and bakes the solution in kilns to drive off water.

In the sintering process, the red mud from the Bayer process is mixed with soda ash, coke and limestone to produce a furnace charge. The refinery sinters the furnace charge in kilns at high temperatures. The resulting substance is desilicated to produce additional sodium aluminate liquor, which is added back to the Bayer process prior to completion, to produce alumina.

In addition to alumina, the refinery's bauxite processing results in by-products, including aluminium sulphate and gallium, that are generally sold to third parties.

The Alumina and Aluminium Division's power station, which is located in northern Kazakhstan, provides the alumina refinery with electric power, steam and heat. The station has an electrical output capacity of 350 MW and a heat capacity of 1170 GCal/h. It consumes coal provided by the Energy Division's coal mine. The power station supplies all of the electricity needs of the alumina plant. The excess electricity capacity (approximately half of the total electricity produced) is sold to the Kazakhstan national grid and the Energy Division, and the excess heat output (approximately 27% of the total heat produced) is sold to the local city of Pavlodar.

Aluminium Smelter

The Group began construction of an aluminium smelter in 2004. The Group anticipates that the smelter will be commissioned by 31 December 2007 with an initial annual capacity of 62,500 tonnes per annum, expanding to 125,000 tonnes per annum by 2009. The Directors expect that the smelter

will reach full operational capacity of 250,000 tonnes per annum by 2011. The aluminium smelter, which is being constructed by specialist industrial construction firm, China Nonferrous Engineering and Construction Company, is expected to cost approximately US\$869 million of which US\$306 million had been spent by 30 June 2007. The smelter is located within 10 km of the alumina refinery, which will supply the smelter's alumina, and within 26 km of the power station, which will supply the smelter with electricity. The Directors currently expect that most of the additional alumina required for aluminium production will be provided through the expansion of the Group's existing alumina operations.

The Group entered into an offtake/distribution agreement in August 2007 with Glencore International AG ("Glencore") pursuant to which Glencore has agreed to purchase all of the aluminium produced by the Group from 1 January 2008, with a minimum of approximately 30,000 tonnes of aluminium per year at a rate of approximately 2,500 tonnes per month. The 10-year agreement sets prices by reference to a specified premium to the end customer price received by Glencore.

For additional information about the Alumina and Aluminium Division's operations, see the "MER" in Annex A.

Sales

The Alumina and Aluminium Division currently sells a significant portion of the alumina that it produces to third-party consumers. It also sells various other products, including limestone and gallium, aluminium sulphate and fireclay, which are by-products of the alumina production process. The following table sets out the Alumina and Aluminium Division's volume of third-party alumina sales for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007.

Product (in kilotonnes)	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Alumina	1,450	1,497	1,508	754

Following commencement of commercial production at the aluminium smelter currently under construction, the Group will also produce and sell aluminium.

The Alumina and Aluminium Division sells its core products through the Group's sales and marketing function. In 2006, all of the alumina produced by the Alumina and Aluminium Division was sold to third-party consumers. Sales of alumina to third parties accounted for over 92% of the Alumina and Aluminium Division's total revenue in 2006.

The Alumina and Aluminium Division realises 85.4% of its revenue from sales to one Russian consumer, UC RUSAL, with whom it signed a long-term agreement in 2002, to provide UC RUSAL with alumina until 31 December 2016. Alumina is also exported to smelters in China and Tajikistan.

The Alumina and Aluminium Division also produced 17 tonnes of gallium in 2006, which were sold to consumers in Japan, and 41,900 tonnes of aluminium sulphate, 39,900 tonnes of which were sold to consumers in the CIS region. The Alumina and Aluminium Division sells electricity and heat to third-party consumers as well.

Key Initiatives

The Alumina and Aluminium Division's principal strategic objectives are to maximise alumina capacity through brownfield expansion, invest in aluminium production to exploit its surplus of low-cost electricity, bauxite and alumina, and diversify its customer base. The Alumina and Aluminium Division will pursue its objectives through spending approximately US\$240 million on:

- further increasing the production of flourey alumina by approximately 300,000 tonnes by 2011. This should allow the Alumina and Aluminium Division to fulfil the aluminium smelter's needs

for alumina without reducing the alumina available for sale to third parties below one million tonnes per annum; and

- upgrading the quality of alumina produced from alumina flour to sandy alumina, which is more efficient in aluminium smelters and generally commands a higher price.

In addition, beginning in 2008 the Company intends to spend approximately a further US\$410 million on:

- expanding the first phase of the aluminium smelter to reach an annual capacity of 125,000 tonnes by 2009; and
- increasing the annual capacity of the aluminium smelter to 250,000 tonnes of aluminium by 2011.

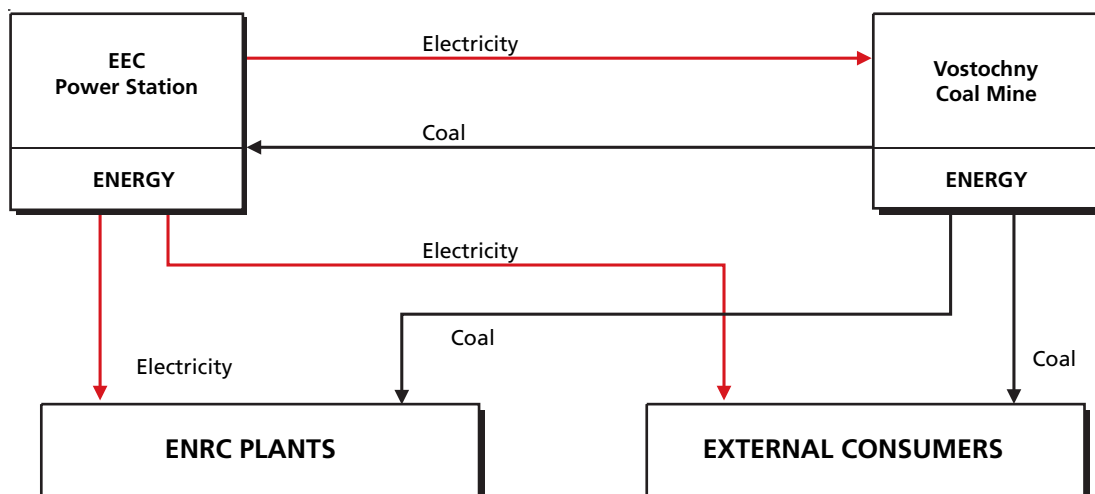
The Energy Division

Overview

The Energy Division is one of the largest producers of electricity and coal in Kazakhstan, accounting for approximately 16% of the country's recorded electricity production in 2006. The Energy Division supplies electricity and coal primarily to the Group's other divisions as well as to third parties.

The Energy Division operates through Eurasian Energy Corporation JSC ("EEC"), and includes a coal mine and a hydroelectric power station. The Energy Division is integrated with the Group's other operations. It supplies electricity and coal to the Ferroalloy Division's Aksu Plant, the Iron Ore Division's power station and processing plant, and the Alumina and Aluminium Division's power station. EEC is also expected to provide electricity to the Group's aluminium smelter, which is scheduled to be commissioned by 31 December 2007. In each case, the Energy Division supplies coal with the support of railway services provided by the Group's Logistics Division. Within the Energy Division, the coal mine and power station supply coal and electricity to each other. The Energy Division also purchases electricity for resale from third parties.

The following diagram illustrates the integration among the Energy Division's operating units:



The following table sets out selected financial information for the Energy Division for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007, which has been extracted without material adjustment from the “Financial information” in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See “Note 4, Segment information” in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007.

US\$ in millions	Year ended 31 December						Six months ended 30 June	
	2004		2005		2006		2007	
		% of Total Group		% of Total Group		% of Total Group		% of Total Group
Revenue	120	4.5%	122	4.1%	154	4.7%	93	5.0%
Inter-segment revenue	91		83		109		64	
Segment revenue ⁽¹⁾	211		205		263		157	
Adjusted EBITDA	66	4.4%	67	4.9%	77	6.1%	65	8.2%
Adjusted EBITDA Margin	31.3%		32.7%		29.3%		41.4%	

(1) Including inter-segment revenue.

The Energy Division provides the Group’s principal operating facilities with reliable access to low cost energy. Due to the quality and long life of the division’s reserves and the efficiency of its coal mining operations, the Energy Division is able to produce power and coal at low cost. In addition, the geographic proximity between the division’s coal mine and power station creates logistical advantages and reduces production costs.

The following table sets forth the volume produced for each of the Energy Division’s principal saleable products for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007.

Product	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Coal (in millions of tonnes) ⁽¹⁾	17.0	16.3	17.9	9.1
Electricity ('000 GWh)	10.6	10.2	11.5	6.3

(1) A proportion of the Energy Division’s coal is consumed in the production of the division’s electricity. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, this proportion was 38.2%, 38.0%, 39.2% and 41.4% respectively.

Operations

Coal Mine

The Energy Division’s coal mine supplies coal to the Energy Division’s power station, the Ferroalloy Division’s Aksu Plant, the Iron Ore Division’s power station and the Alumina and Aluminium Division’s power station, as well as to third parties. In 2006, the coal mine produced 17.9 million tonnes of coal, of which approximately 7.0 million tonnes were supplied to the Energy Division’s power station, 4.6 million tonnes were supplied to other Group entities and 6.3 million tonnes were sold to third parties, including the Russian city of Omsk and Pavlodarenergo, a Kazakh corporation.

According to SRK, as at 1 July 2007, the coal mine had proved and probable reserves of 772 million tonnes. Although the coal is mined from different areas with ash content that ranges from 33% to 55%, the coal is mixed in blenders to achieve a standard quality of coal with a constant ash content of 43%. SRK estimates that the mine’s reserves are sufficient to support operations under current production forecasts for another 39 years. Further information on the coal mine’s reserves and operations is set out in the “MER” in Annex A.

Subsurface Contracts

In accordance with Kazakh legislation, the Energy Division operates the mine under a licence from, and contract with, the Ministry of Energy and Natural Resources of the Republic of Kazakhstan. The main licence was issued on 18 March 1997 and has an initial term of 25 years. The contract was signed on 23 November 1998 and is to expire on 18 March 2022.

Power Station

The Energy Division's power station is one of the largest electricity suppliers in Kazakhstan, housing seven turbine blocks with a total installed capacity of 2,115 MW and a current available capacity (assuming no repairs) of 1,930 MW and the potential to increase total installed capacity to 2,465 MW with the installation of an additional turbine. The power station supplies electricity to the Energy Division's coal mine, the Ferroalloy Division's Aksu Plant, the Iron Ore Division's processing plant, the Alumina and Aluminium Division's aluminium smelter, as well as to third parties. In 2006, the power station produced 11,500 GWh of electricity, of which approximately 200 GWh were supplied to the Energy Division's coal mine, 6,500 GWh were supplied to other Group entities and 4,200 GWh were sold to third parties.

Further information about the Energy Division's operations is set out in the "MER" in Annex A.

Sales

The following table sets out the Energy Division's volume of third party sales by product for the year ended 31 December 2004, 2005, 2006, and the six months ended 30 June 2007.

Product	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Coal (in millions of tonnes) ⁽¹⁾	6.48	5.97	6.26	3.09
Electricity ('000 GWh)	4.70	4.26	5.05	2.54

(1) This includes purchases of coal made by the Energy Division from Mugoteks and Shubarcoal Komir JSC for sale to third parties.

Coal

The main consumers of the Energy Division's coal are other Group entities (65% of 2006 sales volumes), JSC Omskenergo in the city of Omsk (21% of 2006 sales volumes) and Pavlodarenergo (13% of 2006 sales volumes). Of the coal supplied to the Group entities, 60% was supplied to the Energy Division's power station, 24% was supplied to the Alumina and Aluminium Division's power station, 13% was supplied to the Iron Ore Division's power station and 3% was supplied to the Ferroalloy Division's Aksu Plant. For the years ended 31 December 2004, 2005 and 2006, the Energy Division sold 6.48 million, 5.97 million and 6.26 million tonnes of coal, respectively, to third parties. In the first six months of 2007, the Energy Division sold 3.09 million tonnes of coal to third parties.

Electricity

The Energy Division's main competitors are AES Ekibastuz LLP, Ekibastuz GRES-2 JSC, Stations of AO APK and Kazakhmys LLP GRES, which accounted for 12.7%, 7.4%, 6.4% and 6.2%, respectively, of Kazakhstan's competitive market for electricity in 2006. The main consumers of the Energy Division's electricity are other Group entities (56.9% of 2006 sales) and other major third party consumers of electricity (41.4% of 2006 sales), including Mittal Steel Temirtau JSC, KEGOC JSC, Kostanay Minerals JSC. Of the electricity supplied to Group entities, 3% of total electricity was supplied to the Energy Division's coal mine, 83% was supplied to the Ferroalloy Division's Aksu Plant and 14% was supplied to the Iron Ore Division's processing plant. For the years ended 31 December 2004, 2005 and 2006, the Energy Division sold 4,698 GWh, 4,261 GWh and 5,052 GWh of electricity, respectively, to third parties.

Key Initiatives

Although the primary aim of the Energy Division is the supply of low priced electricity to the Group's mining, smelting and refining businesses, it will also invest in stand-alone growth opportunities. To pursue its primary aim, the Energy Division intends to:

- invest approximately US\$190 million between 2008 and 2011 to construct a new turbine and generator. It is expected that the new generator will increase total installed electricity generating capacity by 300MW by 2012;
- install a stripping complex at a cost of approximately US\$40 million to increase efficiency; and
- refurbish certain existing generator blocks at a cost of approximately US\$65 million.

The Logistics Division

Overview

The Group's Logistics Division provides transportation and logistical services to the Group's primary operating divisions and to third parties. The Logistics Division's operations include three core businesses: freight forwarding; railway construction and maintenance; and wagon and locomotive repair. In addition, the Logistics Division operates a transfer and reloading terminal on the Kazakhstan and China border, providing the Group with access to the growing market in China.

The following table sets out selected financial information for the Logistics Division for the years ended 31 December 2004, 2005 and 2006, and the six months ended 30 June 2007, which has been extracted without material adjustment from the "Financial information" in Part V. Neither Adjusted EBITDA nor Adjusted EBITDA Margin is a measure of financial performance under IFRS. See "Note 4, Segment information" in Part V for a reconciliation of profit to Adjusted EBITDA for the years ended 31 December 2004, 2005 and 2006, and for the six months ended 30 June 2007.

	Year ended 31 December						Six months ended 30 June	
	2004		2005		2006		2007	
US\$ in millions	% of Total Group		% of Total Group		% of Total Group		% of Total Group	
Revenue	25	0.9%	146	4.9%	198	6.1%	65	3.5%
Inter-segment revenue	32		49		79		37	
Segment revenue ⁽¹⁾	57		195		277		102	
Adjusted EBITDA	19	1.3%	47	3.4%	54	4.3%	23	2.9%
Adjusted EBITDA Margin	33.3%		24.1%		19.5%		22.5%	

(1) Including inter-segment revenue.

The Logistics Division provides the Group with several strategic advantages. First, the Logistics Division's transport businesses provide the Group with reliable delivery services for its products and a comprehensive logistics infrastructure that mitigates the risks associated with relying on third-party providers. Second, the Logistics Division is one of the largest transport operations in Kazakhstan and provides a complete array of transport services. It owns and maintains a supply of wagons, operates a railway maintenance business and, through its freight forwarding business, can deliver the Group's products from the point of extraction to the point of sale. Finally, the Logistics Division is the sole operator of a transfer and reloading terminal at the border between China and Kazakhstan, which facilitates the Group's access to China.

Freight Forwarding

The Logistics Division's freight forwarding business specialises in combining railway transportation with international forwarding functions to provide "door-to-door" delivery of freight. The freight forwarding business services the transportation needs of the Group's primary operating divisions, and to a lesser extent, third-party customers. For the year ended 31 December 2006, the freight forwarding business transported 61.7 million tonnes of freight, 87.3% of which was transported for

other Group entities. As at 30 June 2007, the freight forwarding business owned approximately 5,800 railway wagons.

The freight forwarding business also owns and operates a transfer and reloading terminal at the border between Kazakhstan and China, which provides the Group with secure access to China.

Railway Construction and Maintenance

The Logistics Division is one of the leading railway construction and repair businesses in Kazakhstan. The primary function of the railway construction and maintenance business is the construction and repair of Kazakhstan's national railways. For the year ended 31 December 2006, the Kazakhstan national railways accounted for 90.7% (US\$172.7 million) of the Logistics Division's railway construction and maintenance revenue.

Wagon and Locomotive Repair

The Logistics Division's wagon and locomotive repair business services and repairs railway wagons and locomotives primarily for the Logistics Division's freight forwarding business and the Iron Ore Division. The wagon and locomotive repair business allows the Group to maintain its fleet of railway wagons and avoid interruptions in the delivery of its products.

Sales

The main consumers of the Logistics Division's services are third parties (71.5% of 2006 revenue). The Group's other entities accounted for 28.5% of 2006 revenue. Significant third-party customers include the Kazakhstan national railway (62.3% of 2006 revenue).

Key Initiatives

The Logistics Division's principal strategic objectives are to provide the Group with the most effective and competitive logistics services, to continue to ensure the Group's access to export ports and to maintain sufficient rolling stock capacity for the Group at a competitive price. To pursue these goals, the Logistics Division currently plans to invest approximately US\$10 million by the end of 2011 for additional rolling stock to ensure that the anticipated increase in the Group's transport needs will be met.

Sales and Marketing

The Group's sales and 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 and marketing function performs the following key functions:

Strategy and planning. In close cooperation with the Group's principal operating divisions, the sales and marketing function assesses and creates plans to exploit growth and development opportunities for each of the Group's businesses. To implement these plans, the Group's sales and marketing personnel play an important role in assisting the Group's operating divisions to allocate and prioritise production capacity to maximise returns.

Commercial terms and customer relations. The sales and marketing function is primarily responsible for negotiating commercial terms and prices with the Group's customers. It also maintains customer relations and oversees the Group's customer services and support function.

Market research. The sales and marketing function monitors market developments and trends in customer demand, new product or technology developments, price fluctuations and potential customer opportunities.

Coordinating logistics. The sales and marketing function coordinates with the Logistics Division to arrange delivery of the Group's products to customers outside Kazakhstan. The centralisation of this function provides significant operational advantages to the Group.

The sales and marketing function offers the Group several competitive advantages 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.

Employees and Employee Relations

As of 31 December 2004, 2005 and 2006, the Group had 58,911; 60,580; and 61,656 employees, respectively. As at 30 June 2007, the Group had approximately 62,085 employees. The Group also utilises some individuals as independent contractors. The following table sets out the number of Group employees by division or function as at 31 December 2004, 2005 and 2006 and 30 June 2007.

Division	No. of employees			
	31 December 2004	31 December 2005	31 December 2006	30 June 2007
Ferroalloy Division	19,088	19,822	20,452	20,697
Iron Ore Division	17,926	18,059	17,949	18,047
Alumina and Aluminium Division	11,874	12,278	12,692	13,160
Energy Division	6,352	6,281	6,374	6,507
Logistics Division	3,512	3,932	3,936	3,417
Sales and marketing function	67	67	93	110
Company/UK Head Office	—	—	—	9
Company/Kazakhstan Office	92	141	160	138
Total	58,911	60,580	61,656	62,085

The Group's key employees have individual employment agreements that cover, among other matters, base remuneration and benefits. In addition, the Group negotiates collective employment agreements, which cover primarily social benefits, with representatives of the Group's employee labour unions.

Almost all of the Group's employees are members of one of three labour unions, which are each organised by reference to a particular industry. Since the Group acquired its operating assets, it has not experienced any material strikes or work stoppages at any of its operating sites as a result of workforce disputes, and the Group benefits from good labour relations.

Social and Community Programmes

As a condition of certain of its subsurface use licences and contracts and pursuant to certain agreements with governmental authorities, the Group is obliged to fund and maintain certain social programmes. These obligations include funding the construction of medical, cultural, recuperation and rehabilitation facilities, community centres, athletic facilities, housing and infrastructure in the areas in which the Group operates. Furthermore, the Group is obliged under its subsurface use licences and contracts to invest in training the local workforce, upgrading the qualifications of its employees and providing educational grants. In addition, at its own initiative and at the request of governmental authorities, the Group has provided and continues to provide social support in the areas where it operates and in other areas in Kazakhstan.

The Directors believe that active long-term engagement with local communities and other stakeholders is important. To support local communities where it operates, the Group supports a number of cultural and religious activities. The Group has provided financial support for the construction of places of worship across Kazakhstan.

Environmental and Health and Safety Matters

Introduction

The Group's operations generate the hazardous and non-hazardous waste, effluent and atmospheric, water and soil emissions that are typical of mining and mineral processing businesses. In addition, many of the Group's work places are exposed to dust, noise, vibration, moving machinery, and other factors, such as Kazakhstan's extreme climate. The Group believes that it has

taken and has in place the necessary compliance procedures and practices required to address these issues within a framework and schedule agreed with the relevant governmental authorities. In addition, the Group is in the process of implementing a number of related modern management systems on a voluntary basis.

Many of ENRC's manufacturing operations are located close to settlements in industrial-suburb type settings, with semi-dependent relationships in terms of infrastructure and workforce. Sanitary Protection Zones ("SPZs"), established under the FSU, are legally required "buffer" zones around industrial sites and usually extend to a radius of between 1 km and 3 km from operating sites. Operations are required to meet environmental quality standards measured at the SPZ's outer boundaries. Residential land uses are not permitted within the SPZs, although settlements do exist within these zones around several of ENRC's operations (it should be noted that legal status of the location of settlements within the SPZ is largely unclear as none of these settlements were established by the Group). Beyond the Group's operations, the SPZs and neighbouring settlements, the surrounding environment is frequently open steppe or agricultural land with a sparse human population.

Despite the remoteness of ENRC's operations from major bodies of surface water, there are some examples of the Group's operations having a direct impact on surface waters. The Group's operations may affect the groundwater and/or soil in the vicinity of its installations. The quality of background groundwater varies with naturally high salinity at some sites. In general, where cases of elevated concentrations of heavy metals have been found in groundwater and/or soils in the vicinity of ENRC's operations, it is often understood to reflect the natural background conditions as well as impacts from ENRC's and, where applicable, other neighbouring industrial operations.

Legislative framework

Environmental

Environmental regulations in Kazakhstan are a legacy of the FSU. In recent years, Kazakhstan has amended its environmental protection laws and has adopted regulations that require industrial facilities to minimise impacts on the environment. The requirements include limits on Maximum Permissible Emission volumes ("MPEs"), Maximum Permissible Discharges ("MPDs") and maximum volumes of waste generation. The regulations are primarily enforced through a mechanism of payment obligations imposed on an entity depending on the entity's levels of emissions, discharges and waste storage. The shortage of adequate monitoring equipment often means that emissions calculations are widely performed by both operators and regulators, which can lead to irregular monitoring and inaccurate results. ENRC pays an annual fee (payable on a quarterly basis) for emissions, discharges and waste storage within permitted levels. If a company fails to achieve the specified targets for such matters this would give rise to additional payment obligations. For each of the years ended 31 December 2004, 2005 and 2006, the Group's total additional payment obligations for emissions, discharges and waste generation at all facilities were not material.

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 environmental regulation closer to that of the EU, although there is still some uncertainty over how the Environmental Code will be implemented in practice. ENRC's environmental staff is involved in the development of the technical specification for some of the new industry standards in Kazakhstan.

Kazakhstan has signed the Kyoto Protocol and a decision is expected by the Kazakhstan government at the end of 2007 with regard to its ratification. A future ratification is expected to include national targets for greenhouse gas emissions, but these targets may or may not necessarily entail specific reductions in present emission levels. It is not anticipated that ratification would result in the imposition of onerous targets on an industry that may threaten national development. It is expected that Kazakhstan would benefit under the Joint Implementation ("JI") mechanism of Kyoto, which allows certain signatory countries to the Protocol to transfer to, or acquire from, other signatory countries like Kazakhstan emission reduction units, thus enabling it to count these units towards meeting its own Kyoto target. ENRC has been investigating its potential under JI, for example as a recipient of clean technologies.

Health and safety

The Group is required to comply with a range of health and safety laws and regulations. The Group's health and safety standards and training procedures are reviewed on an ongoing basis. In accordance with Kazakh law, the Group has developed health and safety procedures tailored to ENRC's operations and activities.

ENRC is presently in the process of re-organising the structure of the health and safety management of each division of the Group so that, in accordance with legal requirements, each division has a health and safety department that is independent of operational management. For the Ferroalloy Division and the Alumina and Aluminium Division these changes have already been completed. A health and safety programme is updated annually for each division. In addition, each operating unit has a safety representative who monitors compliance with the health and safety programme. Internal health and safety related reports and any government inspection reports are reviewed on an ongoing basis.

Employee injuries are monitored in accordance with Kazakh legislation, which requires official registration of the injury, creation of a special commission with local authorities and site representatives to investigate the injury, and further supervision after corrective actions. Minor injuries and subcontractor injuries are not registered or recorded, and this is not required by the legislation.

Management systems

The Group has recently established a Health, Safety and Environment Committee of its Board of Directors (the "HSE Committee"). The HSE Committee is responsible for formulating and recommending to the Board a policy on health, safety and environment issues related to the Group's operations. In particular, the HSE Committee will focus on ongoing compliance with applicable standards to ensure that an effective system of health and safety standards, procedures and practices is in place at each of the Group's operations. The HSE Committee is also responsible for reviewing management's investigation of incidents or accidents that occur to assess whether policy improvements are required. The ultimate responsibility for establishing the Group's health, safety and environment policy, however, remains with the Board.

In 2003, ENRC initiated a phased implementation of formal management systems for some operations, including ISO 14001 environmental management systems, ISO 9001 quality management systems and OHSAS 18001 safety management systems. The Group is the first enterprise in Kazakhstan to implement an environmental management system certified for ISO 14001 and is also the first enterprise among the CIS mining industries to receive OHSAS 18001 certifications at several of the Group's facilities.

For those operations that are certified under one or more management systems, the independent certifying bodies undertake periodic audits to ascertain conformity with system obligations. Management systems do not, however, require a particular level of performance, which is left to the discretion of the operating entity. Also, the degree to which the standards are implemented may be variable.

Environmental

ENRC actively monitors or estimates its air emissions, wastewater discharges and the amount of waste it has generated, as well as 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. During the three years ended 31 December 2006, the total amount of state inspection penalties was US\$131,183 in 2004, US\$50,922 in 2005 and US\$112,024 in 2006.

The Group's operations have obtained all required material contracts, licences and permits, except for several enterprises that are in the process of developing waste management documents. The

Group engaged Environmental Resources Management (“ERM”) in 2006 to assess the Group’s health, safety and environment status with respect to material issues that have cost implications exceeding €1 million. Such issues include material compliance with Kazakh health, safety and environment laws and permit obligations, material conformity with international health, safety and environment best practices and establishment of contingent material liabilities for future mitigation of suspected contamination. ERM determined that the Group is in material compliance with most aspects of the applicable national environmental legislative and regulatory requirements. Site management is aware of those operations that are not currently in compliance, and appropriate action plans and schedules have been implemented to make the necessary technical upgrades, which are primarily related to emissions reduction, wastewater handling and slag or waste management. In general, ERM concluded that the environmental performance of the Group’s operations compares favourably to similar CIS enterprises.

While regulators may be influenced in the extent of their enforcement activity by the dominance of an operator in its local area as an employer, a tax payer and a provider of local utilities to the community, a change of ownership, particularly foreign ownership, may provoke a tougher stance by the regulators, especially if they believe the new owners have greater financial capacity to implement health, safety and environment improvements. However, given the continuing development and, necessarily, the uncertainty of Kazakhstan’s regulatory framework, the primary driver for environmental improvement (and associated expenditure) is likely to be ENRC’s own corporate commitments on environmental, health and safety matters, and the increased degree of external scrutiny to which the Company will be exposed as a UK publicly traded entity, suggesting gradual, managed expenditure on environmental improvement.

The total annual costs of complying with existing legislation, including operating costs, capital expenditure and the obligatory environmental fees, had been US\$90.1 million (2005) and US\$96.9 million (2006), with estimated total costs of US\$76 million for 2007.

ERM identified several aspects of the Group’s operations that, while conforming to current Kazakh requirements, do not conform to international best practices, primarily related to further reduction of air emissions, improved handling of petroleum and chemical substances and storage of waste. Although there are no current or anticipated regulatory obligations in Kazakhstan that require the Group to conform to such international practices, the Group is addressing a number of these issues in its technical upgrade plans such as a US\$2.3 million investment at the AoK power station to reduce water losses.

At several of the Group’s sites, the plant and equipment are many decades old and do not reflect modern environmentally-friendly or energy-efficient technology. The ongoing and future replacement of obsolete equipment—as part of the Group’s ongoing investment programme—will contribute substantially to the improved health, safety and environment performance of the Group’s operations. For example, in January 2007, the Group completed the replacement of two turbines with more efficient equipment and the installation of four modern air emission filters at the EEC Power Plant, which significantly decreased the emission of air pollutants, such as dust and nitrogen oxides, from the facility. In the three-year period from 2004 to 2006, the Group invested US\$26.5 million in new technology with enhanced safety characteristics. Further training of the management and staff is also needed to promote an integrated culture of safety within the Group, and such training is being planned.

Health and safety

Several site operations require material improvement with respect to dust control, ventilation, noise control, vibration and machine guarding, but the necessary improvements have been identified by management and are expected to be completed by 2012. The availability and use of personal protective equipment by employees varies widely among operating locations. The Group’s total annual expenses for employee protection at work sites, including insurance, were US\$48.6 million in 2004, US\$64.4 million in 2005 and US\$57.2 million in 2006. The total health and safety related penalties imposed by the state inspection authority on the Group in 2006 were US\$10,000.

In 2006, the Group's health and safety training expenses were US\$954,000, or US\$71.50 per employee trained. The Group has a special health care programme and spent about US\$8.7 million for employee medical treatment in 2006. The costs associated with investment in and maintenance of recreational, medical and cultural facilities between 2004 and 2006 exceeded US\$50 million. The Group's injury frequency rate ("IFR"), measured per 1000 employees, was 1.2 in 2004, 1.0 in 2005 and 1.4 in 2006. The number of Group fatalities in recent years (eight in 2004, 13 in 2005 and 11 in 2006) is lower than those reported by other large Kazakhstan mining companies.

Operational hazards and insurance

The Group's operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents at its mines, processing plants or related facilities. These risks and hazards could result in damage to production facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

Kazakh law requires mining companies to insure against certain limited risks. The Group maintains mandatory insurance policies that cover the employer's liability for death or injury to workers, and liability insurance for operators of its vehicles. The Group also maintains certain voluntary policies in respect of medical insurance and property and liability insurance. The Group's insurance does not cover other potential risks associated with its operations. In particular, the Energy Division does not currently maintain liability insurance, the Zhairam Unit and the Logistics Division do not currently maintain property damage or business interruption insurance, and no "delay in start-up" insurance (which may not be available in Kazakhstan) is maintained in respect of the Group's aluminium smelter. In addition, the Group does not currently maintain adequate insurance for certain of its operations outside Kazakhstan.

The Group's management periodically evaluates additional insurance coverage. Because Kazakh law currently prohibits foreign insurance companies from operating directly in Kazakhstan, the underdeveloped insurance market in Kazakhstan offers only limited opportunities for insuring risks associated with the Group's business. The Group's operating entities in Kazakhstan may only seek insurance from domestic insurance companies. The Group's principal insurance provider is beneficially owned by the Group's Founders. Please see the paragraph headed "Insurance Arrangements with Eurasia Insurance" in Part X of this Prospectus.

IT systems

Due to the nature of the Group's core operations, its mining and production activities do not rely on information technology to a material extent. Nonetheless, the Group is assessing the extent to which upgraded facilities may offer enhanced efficiency and/or productivity to its business and may implement improvements in due course accordingly.

The Group relies on IT systems for financial reporting purposes. The Group has historically underinvested in its financial reporting IT systems for its Kazakh operations and some of its current IT systems are based on operating systems that are no longer supported by external IT suppliers. The Directors recognise that the Group's current IT systems in Kazakhstan are insufficient to meet the future requirements of the Group, and have therefore initiated an upgrade programme. In this regard, the Group is currently conducting a tender process for a new enterprise resource planning (ERP) system and intends to select an appropriate system by 31 March 2008. The Directors currently anticipate that implementation of this new system will take approximately two to three years, and although the Directors recognise that the costs involved will be substantial, they are confident that a new ERP system will result in greater reliability and efficiency in financial reporting.

The Group has recently implemented COGNOS, a well established financial systems package, in London to facilitate consolidated financial and management reporting and has also documented a disaster recovery plan throughout the Group.

Employee Share Incentives

Subject to Admission, the Company has adopted a long term incentive plan for management and senior employees providing share awards. The total number of share awards granted pursuant to this long term incentive plan, in conjunction with all other employee share plans operated by the Group, cannot exceed 10% of the issued share capital of the Company in ten years. The share awards will be subject to appropriate performance conditions and in granting awards, the Board and its Remuneration Committee intend to comply with the terms of the Combined Code.

The Company has also adopted an incentive plan for management and senior employees providing cash and share awards in respect of their contributions to the Group's preparations for its initial public offering. Cash awards equal to US\$21.6 million have been granted, which are payable in full on Admission. Awards of up to 7,975,000 Ordinary Shares in aggregate have also been granted to employees under this incentive plan.

Further details of these incentive plans are set out in paragraph 13 of Part XIII of this Prospectus.

Current trading and prospects

Since 30 June 2007, the Group has continued to trade in line with the Directors' expectations. The Group's production and sales volumes have progressed in line with expectations, with consolidated revenue higher than for the comparable period in 2006, mainly as a result of the continued strength of commodity prices, and in particular in respect of the Ferroalloy Division and Iron Ore Division. Operating costs have continued to increase, principally in line with the increases experienced in the first half of 2007, due to continued inflationary pressures and the impact of adverse currency movements. These inflationary pressures are being monitored to enable the Group to mitigate their effects on unit costs where possible.

The Directors believe that the financial and trading outlook for the remainder of the year is in line with the Group's expectations.