

Part IV: Operating and financial review

The following discussion of the financial condition and results of operations of the Group should be read in conjunction with the financial information set out in Section B of Part V of this Prospectus and the other financial information contained elsewhere in this Prospectus. This review contains forward-looking statements that reflect the current view of the Directors and involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors discussed below and elsewhere in this Prospectus, particularly in "Risk factors" and "Presentation of information and general disclosures". Certain regulatory and industry issues also affect the Group's results of operations and are described in Part I and Part II of this Prospectus. Investors should read the whole of this Prospectus and not rely just on summarised information.

The following discussion focuses on the Group's audited combined and consolidated financial statements for the three years ended 31 December 2006 and on the Group's audited combined and consolidated financial statements for the six months ended 30 June 2007 and unaudited comparative statements for the six months ended 30 June 2006.

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 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 the country's GDP. The Group currently sells its products to customers around the world, including in Russia, China, Japan, Western Europe and the United States.

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. The Ferroalloy Division's vertically integrated operations include chrome ore and manganese ore mines, two ferroalloy processing plants and a gas power station. 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. The Iron Ore Division's operations include iron ore mines, crushing, beneficiation and pelletising plants and a thermal power station. 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. The Alumina and Aluminium Division's vertically integrated operations include two bauxite mines, 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 first phase of the smelter is expected to be commissioned by 31 December 2007 and achieve full production capacity of 250,000 tonnes per annum by 2011. For the year ended 31 December 2006, the Alumina and Aluminium Division had total revenue of US\$612 million, of which US\$602 million 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 total revenue of US\$325 million, of which US\$324 million 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 and produces a significant surplus for sale to third parties in Kazakhstan. For the year ended 31 December 2006, the Energy Division had total 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 total revenue of US\$157 million, of which US\$93 million 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 logistical services to the Group's principal operating divisions and third parties. The Logistics Division's operations include freight forwarding, wagon repair services and railway construction and repair services, which collectively provide the Group with reliable intra-Group 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 had total 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, of which US\$65 million was derived from third-party sales, which represented 3.5% of the Group's combined and consolidated revenue.

Significant Factors Affecting the Group's Results of Operations

Key factors affecting the Group's results of operations are discussed below.

Commodity prices

Prices of the mineral commodities that the Group produces have a material impact on the Group's results of operations. Commodity prices are affected by changes in global economic conditions, supply and demand trends, technological changes and related industrial cycles. Prices of ferroalloys, iron ore, alumina and aluminium can vary significantly. Generally, producers of commodities are unable to influence market commodity prices directly; however, events such as changes in production capacity, temporary price reductions or other attempts to capture market share by significant producers may have an effect on market prices. Additionally, the prices realised by producers on sales of their products can be affected by contractual arrangements, production levels, product quality and hedging strategies. Price variations, hedging policies and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has long-term supply agreements with alumina and iron ore customers, which provide for the purchase of a substantial part of the Group's annual alumina and iron ore production. In line with industry practice, the contracts do not fix the sale price, rather, goods are priced by reference to the LME or other readily available published prices for the relevant period. The contracts do, however, fix the premium or discount payable, which enables the Group to avoid fluctuations in the premium or discount applicable to sales in the spot market.

The Group also seeks to conclude annual contracts by the end of the fourth quarter of each year for the sale of substantially all of ENRC's expected ferroalloys produced in the following year and, to a lesser extent, iron ore and alumina production for the upcoming year, generally for delivery in monthly batches.

ENRC generally does not hedge its exposure to the risk of fluctuation in the price of mineral commodities and currently does not intend to do so in the future.

Total global demand for high-carbon ferrochrome grew at a compound annual rate of 5.5% between 1997 and 2006, primarily driven by increased stainless steel production in China and India. According to Heinz H. Pariser, growth in demand for high-carbon ferrochrome is likely to average approximately 4.1% per year between 2007 and 2016.

The demand for iron ore is correlated to steel production, which generally follows overall industrial growth. According to reports by CRU, the compound annual growth rate of iron ore production

was 6.8% between 1996 and 2006. CRU also anticipates that rapid economic growth in China will cause continued iron ore supply shortages until 2009.

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 metallurgical 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 5.0%, driven primarily by growth in China.

For a discussion of recent market conditions for the ferrochrome, iron ore and alumina and aluminium markets, see "Industry Overview" under the description of the Ferroalloy, Iron Ore and Alumina and Aluminium Divisions appearing in Part II.

Production costs and efficiency

The Group's competitiveness and long-term profitability are, to a significant degree, dependent upon its ability to maintain low-cost and efficient operations. Costs associated with mining and metal production can be broadly categorised into costs attributable to raw materials, direct labour and production overheads.

The Directors believe that the Group is among the lowest cost producers in each of its segments. The scale of the Group's operations and its vertical integration contribute to the efficiency and profitability of the business. Power plants in Pavlodar and other production facilities, powered by coal from the Group's coal mine in Ekibastuz, provide captive power. Power is supplied to the sites or transferred into the Kazakhstan national grid, and the excess heat output is sold to the local city of Pavlodar, enabling ENRC to use its own power without purchasing electricity at the commercial rate and to bear only the cost of transmission from Pavlodar to the chrome smelting facilities in north-western Kazakhstan. A number of other production-related functions, including repairs and maintenance, are undertaken in-house, which also helps the Group to maintain low costs. Costs per unit are significantly affected by changes in production volumes and, therefore, the Group's production levels are a key factor in determining its overall cost competitiveness.

The Group's production costs and efficiency are subject to fluctuations in the costs of the materials it purchases such as fuel, special coal, coke, materials used for repair and maintenance of facilities and other materials. The Group's materials costs have been rising over the last three years mainly due to increasing oil prices as well as general price inflation for other materials. The Group has undertaken a series of cost-control measures, including modernisation programmes and the restoration of repair parts in lieu of the purchase of new parts, which are aimed at reducing materials costs.

The Group's payroll expenses increased significantly in 2005, 2006 and 2007. These increases have been driven by the Group's effort to remain competitive in respect of wages paid for qualified personnel. Average compensation levels in mining and related industries in Kazakhstan have risen significantly since 2005 due to increased market competition for skilled workers, particularly in the Pavlodar region. Despite these significant increases in the Group's labour costs, the Group still benefits from relatively low-cost local labour.

Transportation costs affect both the Group's distribution costs and cost of sales. These costs have significantly increased over the last two years, impacted by increased sales to China, which incur higher transport costs than sales to Russia and within Kazakhstan, higher railroad tariffs in Kazakhstan that affect all of the Group's divisions, and higher international freight costs for sales in the Ferroalloy Division. In addition, Chinese railroad tariff increases in recent years have generally outpaced inflation. Future transport costs are expected to continue to be affected by increasing railroad tariffs in each of Kazakhstan, China and Russia. These countries exercise significant control over their transport systems, and the long-term effect on railroad tariffs and services is uncertain. Increases in railroad tariffs are partially mitigated by the Group's Logistics Division, which employs private wagons for a large portion of the Group's cargo transportation and provides wagon and railway repair services. This reduces the potential effects of tariff changes by controlling the portion of tariffs paid for wagon usage as well as controlling freight forwarder commissions. Additionally, the proximity of the Group's principal operations to China and Russia, its largest export markets, reduces transportation costs.

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A substantial portion of the Group's production costs are incurred in KZT and, as the US Dollar has weakened against the KZT since 2004, production costs have increased in US Dollar terms.

Exchange rates

The Group's principal products are commodities typically priced by reference to US Dollars. A substantial portion of the Group's costs are incurred in KZT. Accordingly, the Group may be materially affected by exchange rate fluctuations between the US Dollar and the KZT and, to a lesser extent, other currencies including the Swiss Franc, Japanese Yen, Euro and British Pound. In 2007, the Group entered into a number of US\$/KZT foreign exchange forward contracts to partially hedge against fluctuations in the exchange rate. See Note 35 to the Combined and Consolidated Financial Statements in Part V of this Prospectus.

The functional currency of all the significant operating entities is the KZT, while for the sales and marketing entities it is US Dollars. The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates. The results and financial position of all Group entities that have a functional currency different from US Dollars, the Group's presentation currency, are translated into US Dollars as follows:

1. assets and liabilities are translated at the closing rate at the date of that balance sheet;
2. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
3. all resulting exchange differences are recognised as a separate component of equity.

Since 2004, the US Dollar has weakened against the KZT. While this weakening has not materially affected the Group's revenue because the Group's principal products are priced by reference to the US Dollar, it has increased the Group's production costs in US Dollar terms. The following table sets out, for the periods indicated, the period-end and average exchange rates of the KZT to the US Dollar, as applied in the preparation of the Group's audited combined and consolidated financial information for the relevant periods and expressed in KZT per US Dollar.

Period	Period-end	Average
Six months ended 30 June 2007	121.66	123.16
2006	127.00	126.09
2005	133.77	132.85
2004	130.00	135.96

Social responsibility obligations

The Group is obliged to maintain social programmes in Kazakhstan for the benefit of the local communities in which it operates. 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.

These expenses are principally recorded as selling, general and administrative expenses. These obligations constitute a significant expense for the Group and may increase in the future, upon a change in the government or political climate or otherwise. For a description of these obligations, see "Social and community programmes" in Part II of this Prospectus.

Effects of the Global Offer on historical earnings

The Global Offer will not change underlying operational performance, but will alter the Group's capital structure, and is expected to result in an increase in corporate costs to reflect the Company's

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London Stock Exchange-listed status. Had the Global Offer been undertaken on 1 January 2006, the commencement of the Group's last full audited financial year, the earnings of the Group would have been enhanced by the interest received on the net proceeds of the Global Offer received by the Group, prior to its date of expenditure, on an after-tax basis.

Historical Dividend per Share

The Company has only been in existence since December 2006. The Company did not declare any dividends in the period to 30 June 2007. As described in Part II, previously the Group was held under common control by the Founders. For the years ended 2004, 2005 and 2006, certain subsidiary companies paid dividends and distributions to the then holding companies owned by the Founders as summarised in Part X.

Given the mix of dividends and distributions, and the promissory notes (issued to the Founder Shareholders, Mr. Kim and the Kazakhstan Government) and that no dividends within the period to 30 June 2007 have been paid by the Company, dividend per share is not representative of the dividend paid in previous years.

Factors Affecting Comparability

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

Relationship with MMK

Historically, MMK has been one of the Group's principal customers. In 2005, 2006 and the first quarter of 2007, the results of operations of the Iron Ore Division were materially and adversely affected by protracted contractual negotiations with MMK, which resulted in reduced sales volumes and prices. In the second half of 2005, volumes of iron ore products ordered by MMK were significantly reduced, resulting in production cutbacks. In 2006, while shipments of iron ore products to MMK rose to historic levels, prices paid by MMK were substantially below market prices. This trend continued into the second quarter of 2007.

In February 2007, the Group and MMK reached agreement and signed a long-term supply contract that became effective in April 2007 and expires in 2017. Under this agreement, MMK is required to purchase specified quantities of iron ore products at prices determined by reference to published world price indices.

Selling, general and administrative expenses

Given the historical nature of the Group and the absence of a corporate centre and its associated processes and costs until the second half of 2006, the selling, general and administrative expenses, interest and tax costs in each period are not directly comparable.

Acquisition of ENRC Logistics LLP in 2004

A number of entities within the Logistics Division were acquired during 2004. Therefore, the results with respect to the Logistics Division are not directly comparable to future years in which operating results were accounted for the full year.

Acquisition of minority interests in 2006 resulted in an increase in shareholders' equity of US\$384 million

In 2006, the Group acquired minority interests held by the Kazakh government in a number of operating subsidiaries. The acquisition was effected through the exchange of the Company's shares for the shares in subsidiaries held by the Kazakh government. The Group's acquisition of the Kazakh government's minority interest on 19 December 2006 gave rise to goodwill of US\$384 million (see Notes 2 and 18 to the Combined and Consolidated Financial Statements in Part V of this Prospectus).

Promissory note agreements amounting to US\$1,000 million were created as part of the Group restructuring

In order to increase leverage within the business and provide all shareholders a pre-Global Offer distribution, and as part of the legal restructuring undertaken in 2006, a US\$1,000 million promissory note liability was created in favour of ENRC Kazakhstan Holding B.V. and the Committee. In the absence of any cash proceeds received, this legal creation of a liability was recorded as a deemed distribution, thereby reducing shareholders' equity by a corresponding amount. See Notes 1 and 2 to the Combined and Consolidated Financial Statements in Part V of this Prospectus for further information concerning these transactions. In the six months ended 30 June 2007, the Company repaid US\$500 million of the promissory notes payable to the Company's shareholders with proceeds from a draw down on its structured trade finance facility, which the Group had secured in parallel to the restructuring. In July 2007, the Group repaid an additional US\$250 million of the promissory notes, which was financed through an increase in the structured trade finance facility and the remaining US\$250 million (and outstanding interest) was repaid in December 2007. See "—Liquidity and Capital Resources—Capital resources—Bank debt" below.

Results of operations

The combined and consolidated financial information for the three years ended 31 December 2006 has been extracted from the audited combined and consolidated financial information presented in Part V of this Prospectus. Similarly, the interim combined and consolidated financial information for the six-month periods ended 30 June 2007 and 30 June 2006 has been extracted from the audited and unaudited interim combined and consolidated financial information presented in Part V of this Prospectus, respectively.

The following table sets out information about the Group's results of operations for the periods indicated:

US\$ in millions	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
Revenue	2,691	2,950	3,256	1,856	1,514
Cost of sales	(1,017)	(1,246)	(1,542)	(826)	(670)
Gross profit	1,674	1,704	1,714	1,030	844
Distribution costs	(235)	(332)	(407)	(189)	(212)
Selling, general and administrative expenses	(147)	(228)	(290)	(169)	(116)
Other operating expenses—net	(20)	(18)	(20)	(31)	(61)
Operating profit	1,272	1,126	997	641	455
Analysed as:					
Adjusted EBITDA*	1,502	1,363	1,256	797	575
Depreciation and amortisation	(230)	(237)	(253)	(136)	(120)
Exceptional items	—	—	(6)	(20)	—
Finance income	5	12	24	27	11
Finance costs	(22)	(40)	(50)	(82)	(25)
Profit before income tax	1,255	1,098	971	586	441
Income tax expense	(233)	(321)	(285)	(198)	(120)
Profit for the period	1,022	777	686	388	321
<i>Profit is attributable to:</i>					
Equity shareholders of the Group	884	580	550	381	270
Minority interests	138	197	136	7	51
In US\$					
EPS—basic and diluted	0.88	0.58	0.55	0.38	0.27

* 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.

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

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								
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 ⁽¹⁾								
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)	30.1%	37.6%	50.2%	35.8%	31.3%	—	—	38.0%

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

Six months ended 30 June 2007 compared to six months ended 30 June 2006 (unaudited)

Revenue

The Group. The Group's revenue increased by US\$342.3 million, or 22.6%, from US\$1,513.9 million for the six months ended 30 June 2006 to US\$1,856.2 million for the six months ended 30 June 2007. The Ferroalloy Division accounted for 67.1% of the total revenue increase, which was primarily due to higher ferroalloys prices resulting from rising demand primarily driven by the rapid growth in stainless steel production in China and, to a lesser extent, India. In addition, 16.0% of the total revenue increase was attributable to the Iron Ore Division, primarily due to higher achieved iron ore prices and volumes following the resolution of the Group's contractual negotiations with MMK in April 2007.

The Ferroalloy Division. The Ferroalloy Division's revenue increased by US\$229.6 million, or 33.4%, from US\$687.1 million for the six months ended 30 June 2006 to US\$916.7 million for the six months ended 30 June 2007. This increase was primarily due to higher achieved ferroalloy prices, which increased by US\$190.0 per tonne, or 20.9%, from US\$910.6 per tonne for the six months ended 30 June 2006 to US\$1,100.6 per tonne for the six months ended 30 June 2007, and higher achieved chrome ore prices, which increased by US\$59.2 per tonne, or 39.3%, from US\$150.8 per tonne for the six months ended 30 June 2006 to US\$210.0 per tonne for the six months ended 30 June 2007. Price increases across all of the division's product lines led to a US\$165.9 million increase in revenue. In addition, an 8% increase in ferroalloy sales volumes, slightly offset by a 1.9% decline in chrome ore sales volumes, accounted for an increase of US\$40.7 million in revenue. The balance of the increase was attributable to an increase in sales of other products.

The Iron Ore Division. The Iron Ore Division's revenue increased by US\$54.6 million, or 13.6%, from US\$402.0 million for the six months ended 30 June 2006 to US\$456.6 million for the six months ended 30 June 2007. This increase was primarily due to a US\$7.4 per tonne, or 21.3%, rise in achieved iron ore concentrate prices, from US\$34.9 per tonne for the six months ended 30 June 2006 to US\$42.3 per tonne for the six months ended 30 June 2007, and a rise in achieved iron ore pellet prices of US\$9.9 per tonne, or 17.6%, from US\$56.3 per tonne for the six months ended

30 June 2006 to US\$66.2 per tonne for the six months ended 30 June 2007. These increases in achieved prices combined to account for a rise of US\$72.3 million in revenue. The increase in achieved iron ore prices resulted from the resolution of the Group's contractual negotiations with MMK and the resulting ten-year supply agreement with MMK, which took effect for the last three months of the period and under which the price of iron ore sold to MMK is determined by reference to published world price indices. The price increase was partially offset by a 1.9% decline in volumes, resulting in a US\$23.1 million revenue decline.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's revenue increased by US\$19.1 million, or 6.3%, from US\$304.9 million for the six months ended 30 June 2006 to US\$324.0 million for the six months ended 30 June 2007. Volumes of alumina produced and sold were stable over this period (the price of alumina is determined by reference to the LME price for aluminium). The increase in revenue resulted primarily from an increase in the volume of sales of surplus electricity and heat energy produced by the Alumina and Aluminium Division's power station, which is independent of the Energy Division, increased sales of by-products, an increase in energy prices and changes in weather conditions over the respective periods. The achieved price of alumina increased by US\$4.9 per tonne, or 1.3%, from US\$390.3 per tonne for the six months ended 30 June 2006 to US\$395.2 per tonne for the six months ended 30 June 2007. The Alumina and Aluminium Division's sales to other Group divisions declined by US\$4.6 million, or 86.8%, from US\$5.3 million for the six months ended 30 June 2006 to US\$0.7 million for the six months ended 30 June 2007.

The Energy Division. The Energy Division's revenue increased by US\$18.4 million, or 24.5%, from US\$75.1 million for the six months ended 30 June 2006 to US\$93.5 million for the six months ended 30 June 2007. This increase was primarily due to a US\$16.4 million increase in revenue from sales of electricity to third parties, driven by a 4.0% increase in the volume of electricity sold and a 47.8% increase in the average electricity tariff. The revenue from coal sales increased by US\$0.9 million, which was attributable to a 17.9% increase in the average price of coal, principally due to an increase in the price of coal driven by exports. This increase was offset by a 3.0% decline in the shipment of coal to third parties. The Energy Division's sales to other Group divisions increased by US\$16.0 million, or 33.1%, from US\$48.3 million for the six months ended 30 June 2006 to US\$64.3 million for the six months ended 30 June 2007.

The Logistics Division. The Logistics Division's revenue increased by US\$20.5 million, or 45.7%, from US\$44.9 million for the six months ended 30 June 2006 to US\$65.4 million for the six months ended 30 June 2007. This increase was driven primarily by an increase in new repair and construction work commissioned by the Kazakhstan state railroad monopoly. The Logistics Division's sales to other Group divisions declined by US\$0.9 million, or 2.4%, from US\$37.5 million for the six months ended 30 June 2006 to US\$36.6 million for the six months ended 30 June 2007.

Cost of Sales

The Group. The Group's cost of sales increased by US\$156.1 million, or 23.3%, from US\$670.0 million for the six months ended 30 June 2006 to US\$826.1 million for the six months ended 30 June 2007. This increase was largely attributable to the Alumina and Aluminium Division, which accounted for 24.5% of the total increase in the cost of sales, primarily due to the rise of payroll expenses and costs of materials. The Ferroalloy Division accounted for 26.6% of the total increase in the cost of sales primarily due to higher ferroalloy sales volumes combined with an increase in payroll and materials expenses. The Iron Ore Division accounted for 21.7% of the total increase in the cost of sales primarily due to higher volumes of iron ore sales following resolution of the Group's contractual negotiations with MMK in April 2007. Growth in the Logistics Division's cost of sales, primarily due to expenses associated with new railway repair and construction work commissioned by the Kazakhstan state railroad monopoly, accounted for 16.0% of the total increase in cost of sales. Exchange rate fluctuations accounted for an increase of US\$24.0 million in cost of sales.

The Ferroalloy Division. The Ferroalloy Division's cost of sales increased by US\$41.6 million, or 12.8%, from US\$326.2 million for the six months ended 30 June 2006 to US\$367.8 million for the six months ended 30 June 2007. Of this increase, US\$11.3 million were due to an increase in volumes

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and US\$30.3 million due to an increase in per tonne costs. On a per tonne basis, cost of sales increased by US\$24.9 per tonne, or 9.0%, from US\$277.1 per tonne for the six months ended 30 June 2006 to US\$302.0 per tonne for the six months ended 30 June 2007. This increase was primarily driven by a US\$10.6 per tonne increase in payroll expenses, a US\$29.4 per tonne rise in the cost of materials used in production and a US\$3.2 per tonne increase in sales commissions. In addition, an increase in royalty costs paid by the Ferroalloy Division to the Republic of Kazakhstan, which are determined on either a flat rate or a sliding scale as a percentage of the volume of the extracted resource, resulted in a further increase of US\$2.8 per tonne. The increase in the cost of sales was partly offset by a US\$2.6 per tonne reduction in insurance costs. Exchange rate fluctuations accounted for an increase of US\$10.5 million in cost of sales.

The Iron Ore Division. The Iron Ore Division's cost of sales increased by US\$33.8 million, or 20.4%, from US\$165.7 million for the six months ended 30 June 2006 to US\$199.5 million for the six months ended 30 June 2007. Of this increase, US\$36.9 million were due to an increase in per tonne costs, partially offset by a US\$3.1 million reduction in costs due to a decline in volumes sold. On a per tonne basis, cost of sales increased by US\$4.7 per tonne, or 22.7%, from US\$20.6 per tonne for the six months ended 30 June 2006 to US\$25.2 per tonne for the six months ended 30 June 2007. This increase was primarily driven by a US\$1.1 per tonne increase in power and fuel expenses and a US\$1.5 per tonne rise in the cost of materials used in production. In addition, an increase in payroll expenses resulted in a further increase of US\$1.4 per tonne. Exchange rate fluctuations accounted for an increase of US\$6.2 million in cost of sales.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's cost of sales increased by US\$33.7 million, or 23.6%, from US\$143.0 million for the six months ended 30 June 2006 to US\$176.7 million for the six months ended 30 June 2007. Of this increase, US\$36.5 million were due to an increase in per tonne costs, partially offset by a US\$2.8 million reduction in costs due to a reduction in volumes sold. On a per tonne basis, cost of sales increased by US\$48.7 per tonne, or 26.1%, from US\$186.7 per tonne for the six months ended 30 June 2006 to US\$235.3 per tonne for the six months ended 30 June 2007. This increase was primarily due to an increase in the prices paid for raw materials of US\$28.2 per tonne, an increase in payroll expenses of US\$15.3 per tonne, an increase of US\$6.2 per tonne due to changes in inventory and amortisation of US\$4.0 per tonne. Exchange rate fluctuations accounted for an increase of US\$5.5 million in cost of sales.

The Energy Division. The Energy Division's cost of sales increased by US\$8.9 million, or 12.3%, from US\$72.3 million for the six months ended 30 June 2006 to US\$81.2 million for the six months ended 30 June 2007. This increase was primarily due to increased payroll expenses, royalty costs paid to the Republic of Kazakhstan and maintenance and repair costs. Exchange rate fluctuations accounted for an increase of US\$2.4 million in cost of sales.

The Logistics Division. The Logistics Division's cost of sales increased by US\$23.9 million, or 43.9%, from US\$54.5 million for the six months ended 30 June 2006 to US\$78.4 million for the six months ended 30 June 2007. This increase was primarily due to labour and material costs associated with new railway repair and construction work commissioned by the Kazakhstan state railroad monopoly. Exchange rate fluctuations accounted for an increase of US\$2.4 million in cost of sales.

Expenses

Distribution Costs

The Group. The Group's distribution costs declined by US\$22.6 million, or 10.7%, from US\$211.8 million for the six months ended 30 June 2006 to US\$189.2 million for the six months ended 30 June 2007. This decline was principally due to a decline in distribution costs in the Iron Ore Division, which resulted from a greater proportion of iron ore sales being made to MMK in Russia instead of sales to more distant customers in China. This was partially offset by increased distribution costs in the Ferroalloy Division due to higher per tonne transportation and related costs, and in the Alumina and Aluminium Division due to rising sales to Chinese customers. Exchange rate fluctuations accounted for an increase of US\$4.3 million in distribution costs.

The Ferroalloy Division. The Ferroalloy Division's distribution costs increased by US\$13.8 million, or 12.9%, from US\$106.8 million for the six months ended 30 June 2006 to US\$120.6 million for the

six months ended 30 June 2007. Of this increase, US\$3.7 million were due to an increase in volumes and US\$10.1 million due to an increase in per tonne costs. On a per tonne basis, distribution costs increased by US\$8.3 per tonne, or 9.2%, from US\$90.7 per tonne for the six months ended 30 June 2006 to US\$99.0 per tonne for the six months ended 30 June 2007. This increase was primarily driven by an increase of US\$7.4 per tonne in transportation and related costs principally relating to a rise in Kazakh railroad tariffs. In addition, there was an increase of US\$0.8 per tonne in insurance costs. Exchange rate fluctuations accounted for an increase of US\$2.1 million in distribution costs.

The Iron Ore Division. The Iron Ore Division's distribution costs declined by US\$20.5 million, or 29.2%, from US\$70.1 million for the six months ended 30 June 2006 to US\$49.6 million for the six months ended 30 June 2007. Of this decline, US\$19.0 million were due to a decline in per tonne costs and US\$1.3 million due to a decline in volumes. On a per tonne basis, distribution costs declined by US\$2.4 per tonne, or 27.6%, from US\$8.7 per tonne for the six months ended 30 June 2006 to US\$6.3 per tonne for the six months ended 30 June 2007. This decline primarily resulted from the resumption of sales volumes to MMK and the attendant reduction in sales to more distant customers in China. Transportation costs per tonne are significantly higher for deliveries to China compared to deliveries to MMK, which is located only approximately 300 km from the SSGPO processing plant. Exchange rate fluctuations increased distribution costs by US\$1.5 million.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's distribution costs increased by US\$2.8 million, or 17.6%, from US\$15.9 million for the six months ended 30 June 2006 to US\$18.7 million for the six months ended 30 June 2007. Of this increase, US\$3.0 million were due to an increase in per tonne costs, partially offset by a US\$0.3 million decline in volumes. On a per tonne basis, distribution costs increased by US\$4.0 per tonne, or 19.2%, from US\$20.8 per tonne for the six months ended 30 June 2006 to US\$24.8 per tonne for the six months ended 30 June 2007. This increase was principally driven by an increase in transportation costs due to higher railroad tariffs imposed by the Kazakh state railroad monopoly, which increased distribution costs by US\$7.6 per tonne, partially offset by US\$2.7 per tonne lower insurance costs. Exchange rate fluctuations accounted for an increase of US\$0.6 million in distribution costs.

The Energy Division. The Energy Division's distribution costs increased by US\$2.9 million, or 15.9%, from US\$18.2 million for the six months ended 30 June 2006 to US\$21.1 million for the six months ended 30 June 2007. This increase was primarily due to an increase in transportation costs due to higher railroad tariffs imposed by the Kazakh state railroad monopoly. Exchange rate fluctuations accounted for an increase of US\$0.2 million in distribution costs.

The Logistics Division. The Logistics Division's distribution costs were immaterial.

Selling, General and Administrative Expenses

The Group. The Group's selling, general and administrative expenses increased by US\$53.4 million, or 46.1%, from US\$115.9 million for the six months ended 30 June 2006 to US\$169.3 million for the six months ended 30 June 2007. Group level selling, general and administrative expenses were US\$12.8 million and US\$41.9 million for the six months ended 30 June 2006 and 30 June 2007, respectively. This increase was primarily due to expenses resulting from external consulting costs principally relating to the Global Offer, and accounted for 54.5% of the total increase. Rising payroll and related expenses in the Iron Ore Division accounted for an additional 25.3% of the total increase in selling, general and administrative expenses. Exchange rate fluctuations accounted for an increase of US\$3.6 million in selling, general and administrative expenses.

The Ferroalloy Division. The Ferroalloy Division's selling, general and administrative expenses increased by US\$1.1 million, or 2.5%, from US\$44.1 million for the six months ended 30 June 2006 to US\$45.2 million for the six months ended 30 June 2007. This increase was primarily due to an increase in expenses resulting from external consulting costs and an increase in payroll expenses. Exchange rate fluctuations accounted for an increase of US\$1.3 million in selling, general and administrative expenses.

The Iron Ore Division. The Iron Ore Division's selling, general and administrative expenses increased by US\$13.5 million, or 55.5%, from US\$24.3 million for the six months ended 30 June 2006 to US\$37.8 million for the six months ended 30 June 2007. This increase was primarily due to an increase in payroll and other expenses. Exchange rate fluctuations accounted for an increase of US\$1.1 million in selling, general and administrative expenses.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's selling, general and administrative expenses increased by US\$5.5 million, or 33.1%, from US\$16.6 million for the six months ended 30 June 2006 to US\$22.1 million for the six months ended 30 June 2007. This increase was primarily due to an increase in payroll expenses. Exchange rate fluctuations accounted for an increase of US\$0.6 million in selling, general and administrative expenses.

The Energy Division. The Energy Division's selling, general and administrative expenses increased marginally by US\$0.2 million, or 2.3%, from US\$8.8 million for the six months ended 30 June 2006 to US\$9.0 million for the six months ended 30 June 2007. There were no material changes to note. Exchange rate fluctuations accounted for an increase of US\$0.3 million in selling, general and administrative expenses.

The Logistics Division. The Logistics Division's selling, general and administrative expenses increased by US\$4.1 million, or 44.1%, from US\$9.3 million for the six months ended 30 June 2006 to US\$13.4 million for the six months ended 30 June 2007. This increase was primarily due to an increase in payroll expenses. Exchange rate fluctuations accounted for an increase of US\$0.4 million in selling, general and administrative expenses.

Operating Profit

The Group. The Group's operating profit increased by US\$185.6 million, or 40.8%, from US\$454.8 million for the six months ended 30 June 2006 to US\$640.4 million for the six months ended 30 June 2007. The Ferroalloy Division accounted for US\$189.1 million of the total growth in operating profit primarily due to higher ferroalloy prices and increased sales volumes. The Iron Ore Division accounted for 20.9% of the total growth in operating profit helped by the resolution of the Group's contractual negotiations with MMK. This growth was partially offset by increased production costs that resulted in a decline in the operating profit of the Alumina and Aluminium Division, which accounted for a decrease of 14.5% in the total growth in operating profit. An increase in Group level expenses of US\$31.4 million further offset the total growth in operating profit. Exchange rate fluctuations accounted for a decline of US\$29.0 million in operating profit.

The Ferroalloy Division. The Ferroalloy Division's operating profit increased by US\$189.1 million, or 107.3%, from US\$176.2 million for the six months ended 30 June 2006 to US\$365.3 million for the six months ended 30 June 2007. This increase was principally driven by increased ferroalloy prices and volumes of products sold by the Ferroalloy Division. Exchange rate fluctuations accounted for a decline of US\$12.7 million in operating profit.

The Iron Ore Division. The Iron Ore Division's operating profit increased by US\$38.7 million, or 33.7%, from US\$114.9 million for the six months ended 30 June 2006 to US\$153.6 million for the six months ended 30 June 2007. This increase was primarily due to an increase in achieved prices for iron ore sold, mainly to MMK, partly offset by an increase in the cost of sales. Exchange rate fluctuations accounted for a decline of US\$7.8 million in operating profit.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's operating profit declined by US\$27.0 million, or 20.5%, from US\$131.7 million for the six months ended 30 June 2006 to US\$104.7 million for the six months ended 30 June 2007. This decline was principally attributable to an increase in production costs, which was partially offset by other income from the sales of surplus electricity and heat energy. Exchange rate fluctuations accounted for a decline of US\$9.7 million in operating profit.

The Energy Division. The Energy Division's operating profit increased by US\$20.0 million, or 77.2%, from US\$25.9 million for the six months ended 30 June 2006 to US\$45.9 million for the six months ended 30 June 2007. This increase was primarily due to increasing revenue from coal and

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electricity sales. Exchange rate fluctuations accounted for an increase of US\$0.6 million in operating profit.

The Logistics Division. The Logistics Division's operating profit declined by US\$5.6 million, or 27.3%, from US\$20.5 million for the six months ended 30 June 2006 to US\$14.9 million for the six months ended 30 June 2007. Exchange rate fluctuations accounted for a decline of US\$0.5 million in operating profit.

Foreign exchange analysis

In order to illustrate performance and facilitate an understanding of the underlying changes in the period, the following table sets out selected financial information of the Group by division for the six-month periods ended 30 June 2007 and 30 June 2006 (unaudited) assuming constant exchange rates. This represents growth calculated as if the exchange rates used to translate the results of operations from the functional currency to the presentation currency in US Dollars had remained unchanged from those used in the previous period. Such amounts are shown as 'FX neutralised' in the table below.

	Ferroalloy Division	Iron Ore Division	Alumina and Aluminium Division	Energy Division	Logistics Division	Group	Consolidated
In millions of US\$							
Operating profit							
6 months 2006 (unaudited)	176	115	132	26	20	(14)	455
6 months 2007	366	154	105	46	15	(45)	641
6 months 2007, FX neutralised	379	161	115	45	14	(45)	669
FX impact	(13)	(7)	(10)	1	1	—	(28)
Adjusted EBITDA							
6 months 2006 (unaudited)	212	151	156	44	26	(14)	575
6 months 2007	405	197	132	65	23	(25)	797
6 months 2007, FX neutralised	417	203	141	64	22	(25)	822
FX impact	(12)	(6)	(9)	1	1	—	(25)

Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue

The Group. The Group's revenue increased by US\$306.6 million, or 10.4%, from US\$2,950.0 million for the year ended 31 December 2005 to US\$3,256.6 million for the year ended 31 December 2006. The Alumina and Aluminium Division accounted for 50.3% of the total revenue growth primarily due to rising alumina prices. In addition, the Ferroalloy Division accounted for 31.3% of the total revenue growth primarily due to increasing sales of ferroalloys. A shift in the Logistics Division's product mix, particularly from current to capital repairs, led the Logistics Division to account for 17.1% of the total revenue growth. Partially offsetting the total revenue growth was a decline in achieved iron ore prices due to the Group's contractual negotiations with MMK.

The Ferroalloy Division. The Ferroalloy Division's revenue increased by US\$96.1 million, or 7.0%, from US\$1,377.0 million for the year ended 31 December 2005 to US\$1,473.1 million for the year ended 31 December 2006. This increase was primarily due to an 8.9% increase in ferroalloy sales and a 1.3% increase in chrome ore sales, which were principally attributable to stronger exports and resulted in a US\$93.4 million increase in revenue. In addition, achieved chrome ore prices increased by US\$7.3 per tonne, or 4.3%, from US\$169.0 per tonne for the year ended 31 December 2005 to US\$176.3 per tonne for the year ended 31 December 2006. These gains were partially offset by a decline in achieved ferroalloy prices, which declined by US\$23.9 per tonne, or 2.4%, from US\$986.0 per tonne for the year ended 31 December 2005 to US\$962.1 per tonne for the year ended 31 December 2006. This decline was primarily due to a decline in achieved high-carbon ferrochrome prices. The balance of the revenue increase was attributable to manganese ore and other sales.

The Iron Ore Division. The Iron Ore Division's revenue declined by US\$28.1 million, or 3.3%, from US\$857.0 million for the year ended 31 December 2005 to US\$828.9 million for the year ended 31 December 2006. This decline was primarily due to a US\$14.8 per tonne, or 29.1%, decrease in achieved iron ore concentrate prices, from US\$51.0 per tonne for the year ended 31 December 2005

to US\$36.2 per tonne for the year ended 31 December 2006, and a decline in achieved iron ore pellet prices of US\$24.1 per tonne, or 29.3%, from US\$82.4 per tonne for the year ended 31 December 2005 to US\$58.3 per tonne for the year ended 31 December 2006. These decreases in achieved prices combined to account for a decline of US\$324.0 million in revenue. This decrease was largely offset by a 4.3 million tonne, or 37.0%, increase in total shipments of iron ore concentrate and pellets to customers in Russia (including MMK) and China, raising revenue by US\$279.0 million.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's revenue increased by US\$154.3 million, or 34.4%, from US\$448.0 million for the year ended 31 December 2005 to US\$602.3 million for the year ended 31 December 2006. This increase was primarily due to a US\$93.8 per tonne, or 32.2%, increase in average achieved alumina prices, from US\$291.0 per tonne for the year ended 31 December 2005 to US\$384.8 per tonne for the year ended 31 December 2006, which accounted for US\$141.4 million of revenue increase. Alumina prices are typically determined by reference to the LME price for aluminium. The Alumina and Aluminium Division's sales to other divisions declined by US\$1.8 million, or 15.0%, from US\$12.0 million for the year ended 31 December 2005 to US\$10.2 million for the year ended 31 December 2006.

The Energy Division. The Energy Division's revenue increased by US\$32.0 million, or 26.2%, from US\$122.0 million for the year ended 31 December 2005 to US\$154.0 million for the year ended 31 December 2006. The increase in electricity sales to third parties was attributable to an 18.5% increase in the volume of electricity sold and a 17.2% increase in the average electricity tariff. The increase in coal revenue from third parties was attributable to an 9.6% increase in the average price of coal and 4.8% increase in volume of sales. The increase in the average price of coal was principally due to an increase in the price of exported coal. The Energy Division's sales to other divisions increased by US\$26.0 million, or 31.3%, from US\$83.0 million for the year ended 31 December 2005 to US\$109.0 million for the year ended 31 December 2006.

The Logistics Division. The Logistics Division's revenue increased by US\$52.3 million, or 35.8%, from US\$146.0 million for the year ended 31 December 2005 to US\$198.3 million for the year ended 31 December 2006. This increase was partially due to the shift from current repairs to capital repairs, which, combined with rising volumes, accounted for US\$49.6 million of the revenue increase. Revenue also increased due to an increase in the railroad tariff imposed by the Kazakh state railroad monopoly, which increased on average by 15% for Group products during this period, of which a majority was directly passed on to customers. Revenue from third parties principally relate to repair and construction work commissioned by the Kazakh state railroad monopoly. Most of the Logistics Division's other revenue relates to freight forwarding services provided to the Group's other divisions. The Logistics Division's sales to other divisions increased by US\$30.0 million, or 61.2%, from US\$49.0 million for the year ended 31 December 2005 to US\$79.0 million for the year ended 31 December 2006.

Cost of Sales

The Group. The Group's cost of sales increased by US\$295.5 million, or 23.7%, from US\$1,246.0 million for the year ended 31 December 2005 to US\$1,541.5 million for the year ended 31 December 2006. The Ferroalloy Division accounted for 41.9% of the total growth in the cost of sales primarily due to a payroll increase together with increased electricity spending. The Iron Ore Division accounted for 28.7% of the total growth in the cost of sales primarily due to higher iron ore sales to MMK that resulted in significant cost increases. While cost-saving measures in the Alumina and Aluminium Division resulted in a decline in the cost of materials, a payroll increase, combined with growth in fuel costs, led the Alumina and Aluminium Division to account for 11.5% of the total growth in cost of sales. Exchange rate fluctuations accounted for an increase of US\$72.1 million in cost of sales.

The Ferroalloy Division. The Ferroalloy Division's cost of sales increased by US\$123.8 million, or 22.9%, from US\$539.6 million for the year ended 31 December 2005 to US\$663.4 million for the year ended 31 December 2006. Of this increase, US\$28.4 million were due to an increase in volumes and US\$95.5 million due to an increase in per tonne costs. On a per tonne basis, cost of sales increased by US\$40.5 per tonne, or 16.8%, from US\$240.6 per tonne for the year ended 31 December 2005 to US\$281.1 per tonne for the year ended 31 December 2006. This increase was

principally due to higher production costs primarily driven by a US\$11.9 per tonne increase in payroll expenses, US\$9.9 per tonne increase in power and fuel costs and US\$11.4 per tonne increase in cost of materials. Exchange rate fluctuations accounted for an increase of US\$30.3 million in cost of sales.

The Iron Ore Division. The Iron Ore Division's cost of sales increased by US\$84.8 million, or 30.6%, from US\$277.5 million for the year ended 31 December 2005 to US\$362.3 million for the year ended 31 December 2006. Of this increase, US\$111.9 million were due to an increase in volumes, which was offset by US\$27.1 million due to lower per tonne costs. On a per tonne basis, cost of sales declined by US\$1.6 per tonne, or 6.8%, from US\$23.6 per tonne for the year ended 31 December 2005 to US\$22.0 per tonne for the year ended 31 December 2006. The per tonne decrease was primarily attributable to the Iron Ore Division's increased absorption of fixed and semi-variable costs such as labour, fuel, insurance and depreciation across a higher volume of sales. Exchange rate fluctuations accounted for an increase of US\$18.5 million in cost of sales.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's cost of sales increased by US\$32.3 million, or 11.5%, from US\$281.6 million for the year ended 31 December 2005 to US\$313.9 million for the year ended 31 December 2006. Of this increase, US\$2.0 million were due to an increase in volumes, and US\$30.3 million due to an increase in per tonne costs. On a per tonne basis, cost of sales increased by US\$20.1 per tonne, or 10.7%, from US\$188.1 tonne for the year ended 31 December 2005 to US\$208.2 per tonne for the year ended 31 December 2006. This increase was primarily due to an increase in fixed or semi-variable costs, including a US\$8.9, or 27.5%, per tonne increase in payroll expenses, US\$9.2 per tonne increase in power and energy spending and US\$5.0 per tonne increase in transportation costs due to higher Kazakh railroad tariffs. Partially offsetting this increase was an US\$8.9 per tonne decline in cost of materials. Exchange rate fluctuations accounted for an increase of US\$16.0 million in cost of sales.

The Energy Division. The Energy Division's cost of sales increased by US\$38.1 million, or 29.5%, from US\$129.3 million for the year ended 31 December 2005 to US\$167.4 million for the year ended 31 December 2006. This increase was primarily due to higher payroll and other expenses. Exchange rate fluctuations accounted for an increase of US\$6.2 million in cost of sales.

The Logistics Division. The Logistics Division's cost of sales increased by US\$65.8 million, or 42.7%, from US\$154.0 million for the year ended 31 December 2005 to US\$219.8 million for the year ended 31 December 2006. This increase was primarily due to an increase in the volume of railroad repairs and an increase in prices for materials. Another factor contributing to the increase was a rise in the railroad tariff imposed by the Kazakh state railroad monopoly, which increased on average 15% for Group products during this period, of which a majority was directly passed on to customers. Exchange rate fluctuations accounted for an increase of US\$11.2 million in cost of sales.

Expenses

Distribution Costs

The Group. The Group's distribution costs increased by US\$75.0 million, or 22.6%, from US\$332.0 million for the year ended 31 December 2005 to US\$407.0 million for the year ended 31 December 2006. The Ferroalloy and Iron Ore Divisions together accounted for 84.1% of the total growth in distribution costs primarily due to higher transportation and insurance expenses associated with higher volumes sold. In addition, increasing transportation costs due to increased Kazakh railroad tariffs led the Alumina and Aluminium Division to account for 14.8% of the total growth in distribution costs. Exchange rate fluctuations accounted for an increase of US\$14.3 million in distribution costs.

The Ferroalloy Division. The Ferroalloy Division's distribution costs increased by US\$29.6 million, or 16.0%, from US\$185.3 million for the year ended 31 December 2005 to US\$214.9 million for the year ended 31 December 2006. Of this increase, US\$9.7 million were due to an increase in volumes and US\$19.9 million due to an increase in per tonne costs. On a per tonne basis, distribution costs increased by US\$8.5 per tonne, or 10.3%, from US\$82.6 per tonne for the year ended 31 December 2005 to US\$91.1 per tonne for the year ended 31 December 2006. This increase was primarily due to an increase of US\$8.3 per tonne in transportation and related costs from Kazakh and foreign

railroad tariffs. In addition, there was an increase of US\$0.6 per tonne in insurance costs. Exchange rate fluctuations accounted for an increase of US\$6.4 million in distribution costs.

The Iron Ore Division. The Iron Ore Division's distribution costs increased by US\$33.5 million, or 31.4%, from US\$106.6 million for the year ended 31 December 2005 to US\$140.1 million for the year ended 31 December 2006. This increase was primarily due to an increase in transportation costs, which were driven by increased Kazakh railroad tariffs. Of this increase, US\$43.0 million were due to an increase in volumes, which was offset by US\$9.5 million attributable to a decline in per tonne costs. On a per tonne basis, distribution costs declined by US\$0.6 per tonne, or 6.6%, from US\$9.1 per tonne for the year ended 31 December 2005 to US\$8.5 per tonne for the year ended 31 December 2006. Exchange rate fluctuations accounted for an increase of US\$6.7 million in distribution costs.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's distribution costs increased by US\$11.1 million, or 53.7%, from US\$20.7 million for the year ended 31 December 2005 to US\$31.8 million for the year ended 31 December 2006. Of this increase, US\$0.1 million were due to an increase in volumes and US\$11.0 million due to an increase in per tonne costs. On a per tonne basis, distribution costs increased by US\$7.3 per tonne, or 52.9%, from US\$13.8 per tonne for the year ended 31 December 2005 to US\$21.1 per tonne for the year ended 31 December 2006. This increase was primarily due to a rise in transportation costs due to higher railroad tariffs imposed by the Kazakh state railroad monopoly, which resulted in an increase in distribution costs of US\$2.0 per tonne, and an increase of US\$1.6 per tonne in insurance costs. Exchange rate fluctuations accounted for an increase of US\$0.7 million in distribution costs.

The Energy Division. The Energy Division's distribution costs increased by US\$4.3 million, or 15.2%, from US\$28.3 million for the year ended 31 December 2005 to US\$32.6 million for the year ended 31 December 2006. This increase was primarily due to an increase in transportation costs, including a rise in the railroad tariff imposed by the Kazakh state railroad monopoly, which increased on average approximately 15% during this period, of which a majority was directly passed on to customers. Exchange rate fluctuations accounted for an increase of US\$0.4 million in distribution costs.

The Logistics Division. The Logistics Division's distribution costs were immaterial.

Selling, General and Administrative Expenses

The Group. The Group's selling, general and administrative expenses increased by US\$61.9 million, or 27.1%, from US\$228.0 million for the year ended 31 December 2005 to US\$289.9 million for the year ended 31 December 2006. Group level selling, general and administrative expenses were US\$18.0 million and US\$29.8 million in the years ended 31 December 2005 and 31 December 2006, respectively. This increase was primarily due to higher payroll and sponsorship expenses and other expenses relating to social infrastructure and charitable programmes. Exchange rate fluctuations accounted for an increase of US\$12.0 million in selling, general and administrative expenses.

The Ferroalloy Division. The Ferroalloy Division's selling, general and administrative expenses increased by US\$15.7 million, or 16.1%, from US\$97.5 million for the year ended 31 December 2005 to US\$113.2 million for the year ended 31 December 2006. This increase was primarily due to US\$8.4 million of other costs relating to membership fees, a US\$5.8 million increase in payroll expenses, and a US\$10.9 million increase in other expenses, which primarily relate to social infrastructure and charitable programmes, less the release of a US\$7.3 million provision for bad debt. Exchange rate fluctuations accounted for an increase of US\$4.7 million in selling, general and administrative expenses.

The Iron Ore Division. The Iron Ore Division's selling, general and administrative expenses increased by US\$15.0 million, or 31.2%, from US\$48.0 million for the year ended 31 December 2005 to US\$63.0 million for the year ended 31 December 2006. This increase included US\$6.6 million of impairment of fixed assets, US\$3.0 million of sponsorship expenses and US\$2.9 million of other taxes primarily related to property. Exchange rate fluctuations accounted for an increase of US\$3.2 million in selling, general and administrative expenses.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's selling, general and administrative expenses increased by US\$10.0 million, or 35.5%, from US\$28.1 million for the year ended 31 December 2005 to US\$38.1 million for the year ended 31 December 2006. This increase was primarily due to a US\$4.4 million increase in payroll expenses. Exchange rate fluctuations accounted for an increase of US\$1.9 million in selling, general and administrative expenses.

The Energy Division. The Energy Division's selling, general and administrative expenses increased by US\$4.0 million, or 23.1%, from US\$17.3 million for the year ended 31 December 2005 to US\$21.3 million for the year ended 31 December 2006. This increase was primarily due to increased payroll expenses, property taxes and corporate charges. Exchange rate fluctuations accounted for an increase of US\$1.1 million in selling, general and administrative expenses.

The Logistics Division. The Logistics Division's selling, general and administrative expenses increased by US\$3.4 million, or 17.8%, from US\$19.1 million for the year ended 31 December 2005 to US\$22.5 million for the year ended 31 December 2006. This increase was primarily associated with an increase in payroll and related expenses. Exchange rate fluctuations accounted for an increase of US\$1.1 million in selling, general and administrative expenses.

Operating Profit

The Group. The Group's operating profit declined by US\$128.5 million, or 11.4%, from US\$1,126.0 million for the year ended 31 December 2005 to US\$997.5 million for the year ended 31 December 2006. This decline was primarily the result of ongoing contractual negotiations with MMK, which caused achieved iron ore prices to decline. This decline was partially offset by increases in alumina prices. Group level expenses decreased operating profit by US\$10.0 million. Exchange rate fluctuations accounted for a decline of US\$76.4 million in operating profit.

The Ferroalloy Division. The Ferroalloy Division's operating profit decreased by US\$61.8 million, or 11.5%, from US\$538.0 million for the year ended 31 December 2005 to US\$476.2 million for the year ended 31 December 2006. This decline was primarily due to an increase in distribution costs that was driven by an increase in transportation costs and an increase in selling, general and administrative expenses. These increases were partially offset by a decline in net other operating income expense. Exchange rate fluctuations accounted for a decline of US\$38.6 million in operating profit.

The Iron Ore Division. The Iron Ore Division's operating profit declined by US\$168.7 million, or 40.9%, from US\$412.7 million for the year ended 31 December 2005 to US\$244.0 million for the year ended 31 December 2006. This decline was primarily due to a 37.0% decline in the price of iron ore concentrate and a 48.2% decline in the price of pellets sold to MMK. Exchange rate fluctuations reduced operating profit by US\$25.4 million.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's operating profit increased by US\$94.6 million, or 71.8%, from US\$131.7 million for the year ended 31 December 2005 to US\$226.3 million for the year ended 31 December 2006. This increase was primarily due to a 32.2% increase in the price of alumina. Exchange rate fluctuations accounted for a decrease of US\$16.4 million in operating profit.

The Energy Division. The Energy Division's operating profit increased by US\$9.8 million, or 31.2%, from US\$31.4 million for the year ended 31 December 2005 to US\$41.2 million for the year ended 31 December 2006. This increase was primarily due to increased sales volumes of coal and electricity. Exchange rate fluctuations accounted for an increase of US\$2.0 million in operating profit.

The Logistics Division. The Logistics Division's operating profit increased by US\$7.6 million, or 25.2%, from US\$30.2 million for the year ended 31 December 2005 to US\$37.8 million for the year ended 31 December 2006. This increase was primarily due to the increases in revenue of the transportation and railroad repair businesses. Exchange rate fluctuations accounted for an increase of US\$2.0 million in operating profit.

Foreign exchange analysis

In order to illustrate performance and facilitate an understanding of the underlying changes in the period, the following table sets out selected financial information of the Group by division for the two years ended 31 December 2006 assuming constant exchange rates. This represents growth calculated as if the exchange rates used to translate the results of operations from the functional currency to the presentation currency in US Dollars had remained unchanged from those used in the previous year. Such amounts are shown as 'FX neutralised' in the table below.

	Ferroalloy Division	Iron Ore Division	Alumina and Aluminium Division	Energy Division	Logistics Division	Group	Consolidated
In millions of US\$							
Operating profit							
12 months 2005	538	413	132	31	30	(18)	1,126
12 months 2006	476	244	226	41	38	(28)	997
12 months 2006, FX neutralised	515	269	243	39	36	(28)	1,074
FX impact	(39)	(25)	(17)	2	2	—	(77)
Adjusted EBITDA							
12 months 2005	606	479	182	67	47	(18)	1,363
12 months 2006	547	323	277	77	54	(22)	1,256
12 months 2006, FX neutralised	582	344	290	74	52	(22)	1,320
FX impact	(35)	(21)	(13)	3	2	—	(64)

*Year ended 31 December 2005 compared to year ended 31 December 2004**Revenue*

The Group. The Group's revenue increased by US\$259.0 million, or 9.6%, from US\$2,691.0 million for the year ended 31 December 2004 to US\$2,950.0 million for the year ended 31 December 2005. The Logistics Division accounted for 46.7% of the total revenue growth primarily due to the contribution of a full year of revenue generated by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, compared to only one quarter in 2004. Rising ferroalloy sales volumes, partially offset by a decline in price movements, led the Ferroalloy Division to account for 34.7% of the total revenue growth. An increase in the average price of alumina primarily accounted for the Alumina and Aluminium Division's 27.8% contribution to the total revenue growth. The growth in total revenue was partially offset by reduced sales of iron ore due to reduced shipments to MMK.

The Ferroalloy Division. The Ferroalloy Division's revenue increased by US\$90.0 million, or 7.0%, from US\$1,287.0 million for the year ended 31 December 2004 to US\$1,377.0 million for the year ended 31 December 2005. Of this increase, US\$56.5 million was due to a 4.5% increase in sales of ferroalloys and an 18.9% increase in sales of chrome ore, driven by higher production and significant increases in demand due to increases in Chinese stainless steel production. In addition, a US\$30.4 per tonne, or 21.9%, increase in achieved chrome ore prices from US\$138.7 per tonne for the year ended 31 December 2004 to US\$169.1 per tonne for the year ended 31 December 2005, slightly offset by a US\$25.5 per tonne, or 2.5%, reduction in achieved ferroalloy prices from US\$1,011.4 per tonne for the year ended 31 December 2004 to US\$985.9 per tonne for the year ended 31 December 2005, resulted in a US\$21.4 million increase in revenue. The ferroalloy price decline was mainly caused by a 36.0% decrease in the price of silicomanganese, which had been selling at higher prices prior to 2005 due to insufficient supply. The balance of the revenue increase was attributable to the sales of manganese ore.

The Iron Ore Division. The Iron Ore Division's revenue declined by US\$26.0 million, or 2.9%, from US\$883.0 million for the year ended 31 December 2004 to US\$857.0 million for the year ended 31 December 2005. An aggressive pricing policy for sales to MMK and higher prices negotiated with customers in China increased the average achieved price of iron ore concentrate by US\$3.7 per tonne, or 7.8%, from US\$47.3 per tonne for the year ended 31 December 2004 to US\$51.0 per tonne for the year ended 31 December 2005 and the average achieved price of iron ore pellets by US\$16.9

per tonne, or 25.8%, from US\$65.5 per tonne for the year ended 31 December 2004 to US\$82.4 per tonne for the year ended 31 December 2005, which combined to result in a US\$177.2 million increase in revenue. This increase was more than offset by a 19.1% decline in sales of iron ore that resulted in a decline in revenue of US\$204.4 million. The decline in sales resulted from ongoing negotiations with MMK that disrupted shipments in 2005, but was partially offset by an increase in shipments to customers in China.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's revenue increased by US\$72.0 million, or 19.1%, from US\$376.0 million for the year ended 31 December 2004 to US\$448.0 million for the year ended 31 December 2005. This increase was primarily due to a US\$35.8 per tonne, or 14.0%, increase in average achieved alumina prices, from US\$255.2 per tonne for the year ended 31 December 2004 to US\$291.0 per tonne for the year ended 31 December 2005, which increased revenue by US\$53.5 million, and a 3.7% increase in sales of alumina, which increased revenue by US\$13.8 million. The Alumina and Aluminium Division's sales to other Group divisions increased by US\$4.0 million, or 50.0%, from US\$8.0 million for the year ended 31 December 2004 to US\$12.0 million for the year ended 31 December 2005.

The Energy Division. The Energy Division's revenue increased by US\$2.0 million, or 1.7%, from US\$120.0 million for the year ended 31 December 2004 to US\$122.0 million for the year ended 31 December 2005. There were no material changes to note. The Energy Division's sales to other Group divisions declined by US\$8.0 million, or 8.8%, from US\$91.0 million for the year ended 31 December 2004 to US\$83.0 million for the year ended 31 December 2005.

The Logistics Division. The Logistics Division's revenue increased by US\$121.0 million, or 484.0%, from US\$25.0 million for the year ended 31 December 2004 to US\$146.0 million for the year ended 31 December 2005. This increase was primarily driven by the contribution of a full year of revenue by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, compared to only one quarter in 2004. In addition, revenue from railroad repair businesses increased due to increased prices and an increase in current and capital repairs and railroad construction. These businesses also began to directly supply and charge for repair materials and wagons that were previously provided by the end customers. Other reasons for the Logistics Division's revenue increase were higher tariffs imposed by the Kazakh state railroad monopoly, of which a majority was directly passed on to customers, and an increase in transportation volumes. The Logistics Division's sales to other Group divisions increased by US\$17.0 million, or 53.1%, from US\$32.0 million for the year ended 31 December 2004 to US\$49.0 million for the year ended 31 December 2005.

Cost of Sales

The Group. The Group's cost of sales increased by US\$228.7 million, or 22.5%, from US\$1,017.3 million for the year ended 31 December 2004 to US\$1,246.0 million for the year ended 31 December 2005. The Logistics Division accounted for 43.4% of the total increase in the cost of sales primarily due to the contribution of a full year of costs by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, compared to only one quarter in 2004. A rise in payroll expenses, higher cost of materials and a rise in Kazakh railroad tariffs were also significant factors contributing to the total increase in the cost of sales. Increases in the cost of sales in the Ferroalloy and Alumina and Aluminium Divisions accounted for 38.8% and 26.8%, respectively, of the total increase in the cost of sales. Exchange rate fluctuations accounted for an increase of US\$25.2 million in cost of sales.

The Ferroalloy Division. The Ferroalloy Division's cost of sales increased by US\$88.8 million, or 19.7%, from US\$450.8 million for the year ended 31 December 2004 to US\$539.6 million for the year ended 31 December 2005. Of this increase, US\$49.4 million were due to an increase in volumes and US\$39.4 million due to an increase in per tonne costs. On a per tonne basis, cost of sales increased by US\$17.6 per tonne, or 7.9%, from US\$223.0 per tonne for the year ended 31 December 2004 to US\$240.6 per tonne for the year ended 31 December 2005. This increase was principally due to higher production costs primarily driven by a US\$2.2 per tonne increase in payroll expenses. In addition, there was an increase of US\$4.4 per tonne in sales commissions and a US\$1.6 per tonne increase in royalty costs paid to the Republic of Kazakhstan, which are determined on either a flat

rate or a sliding scale as a percentage of the volume of the extracted resource. Exchange rate fluctuations accounted for an increase of US\$10.8 million in cost of sales.

The Iron Ore Division. The Iron Ore Division's cost of sales declined by US\$12.1 million, or 4.2%, from US\$289.6 million for the year ended 31 December 2004 to US\$277.5 million for the year ended 31 December 2005. Of this decline, US\$55.4 million were due to reduced sales volumes, offset partially by a US\$43.2 million increase in per tonne costs. On a per tonne basis, cost of sales increased by US\$3.7 per tonne, or 18.5%, from US\$19.9 per tonne for the year ended 31 December 2004 to US\$23.6 per tonne for the year ended 31 December 2005. This increase was primarily due to increased absorption of fixed and semi-variable costs, such as materials costs and depreciation. Exchange rate fluctuations accounted for an increase of US\$6.1 million in cost of sales.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's cost of sales increased by US\$65.2 million, or 30.1%, from US\$216.4 million for the year ended 31 December 2004 to US\$281.6 million for the year ended 31 December 2005. Of this increase, US\$57.2 million were due to increased per tonne costs and US\$8.1 million due to an increase in volumes. On a per tonne basis, costs increased by US\$38.2 per tonne, or 25.5%, from US\$149.9 per tonne for the year ended 31 December 2004 to US\$188.1 per tonne for the year ended 31 December 2005. This increase was primarily due to increases of US\$1.2 per tonne in the cost of raw materials, US\$5.5 per tonne in insurance costs, US\$4.3 per tonne in payroll expenses, US\$6.3 per tonne in fuel and energy expenses and US\$6.5 per tonne in transportation costs. Exchange rate fluctuations accounted for an increase of US\$6.3 million in cost of sales.

The Energy Division. The Energy Division's cost of sales declined by US\$19.3 million, or 13.0%, from US\$148.6 million for the year ended 31 December 2004 to US\$129.3 million for the year ended 31 December 2005. This decline was primarily due to reduced sales volumes and reduced depreciation. In addition, in 2005 some third-party services and taxes were excluded from cost of sales, further contributing to the decline. The decline was partially offset by increases in payroll expenses. Exchange rate fluctuations accounted for an increase of US\$1.9 million in cost of sales.

The Logistics Division. The Logistics Division's cost of sales increased by US\$116.4 million, or 309.7%, from US\$37.6 million for the year ended 31 December 2004 to US\$154.0 million for the year ended 31 December 2005. This increase was primarily due to the contribution of a full year of costs by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, compared to only one quarter in 2004. In addition, the division's railway repair businesses began to directly acquire and supply materials that were previously provided by the end customers, contributing to the increase in the cost of sales. Other drivers for the increase in cost of sales were empty mileage fees levied on empty containers and wagons, increased tariffs and higher depreciation associated with the acquisition of new wagons. Exchange rate fluctuations accounted for an increase of US\$3.5 million in cost of sales.

Expenses

Distribution Costs

The Group. The Group's distribution costs increased by US\$97.0 million, or 41.3%, from US\$235.0 million for the year ended 31 December 2004 to US\$332.0 million for the year ended 31 December 2005. The Ferroalloy Division accounted for 45.3% of the total increase in distribution costs, primarily driven by rising transportation costs due to higher railroad tariffs and higher insurance costs due to increased sales volumes. Despite a reduction in the volume of iron ore sales, higher railroad tariffs contributed to the increase in distribution costs in the Iron Ore Division, which accounted for 42.1% of the total increase in distribution costs. Exchange rate fluctuations accounted for an increase of US\$6.5 million in distribution costs.

The Ferroalloy Division. The Ferroalloy Division's distribution costs increased by US\$43.9 million, or 31.0%, from US\$141.4 million for the year ended 31 December 2004 to US\$185.3 million for the year ended 31 December 2005. Of this increase, US\$15.5 million were due to an increase in volumes and US\$28.4 million due to an increase in per tonne costs. On a per tonne basis, distribution costs increased by US\$12.6 per tonne, or 18.0%, from US\$70.0 per tonne for the year ended 31 December 2004 to US\$82.6 for the year ended 31 December 2005. This increase was primarily due to higher

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Kazakh railroad tariffs, which increased from 18% to 25%, accounting for US\$14.5 per tonne of the increase, which was partially offset by reduction in other costs. Exchange rate fluctuations accounted for an increase of US\$4.5 million in distribution costs.

The Iron Ore Division. The Iron Ore Division's distribution costs increased by US\$40.8 million, or 62.1%, from US\$65.8 million for the year ended 31 December 2004 to US\$106.6 million for the year ended 31 December 2005. Of this increase, US\$54.0 million were due to increased per tonne costs, offset by US\$12.6 million due to reduced volumes. On a per tonne basis, distribution costs increased by US\$4.6 per tonne, or 102.2%, from US\$4.5 per tonne for the year ended 31 December 2004 to US\$9.1 per tonne for the year ended 31 December 2005. This increase was primarily due to higher Kazakh railroad tariffs, which increased on average approximately 30%, and increased shipments to China, which involve greater costs than shipments to Russia or within Kazakhstan. Exchange rate fluctuations accounted for an increase of US\$1.7 million in distribution costs.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's distribution costs increased by US\$8.6 million, or 71.2%, from US\$12.1 million for the year ended 31 December 2004 to US\$20.7 million for the year ended 31 December 2005. Of this increase, US\$8.1 million were due to increased per tonne costs and US\$0.5 million due to increased volumes. On a per tonne basis, distribution costs increased by US\$5.4 per tonne, or 64.5%, from US\$8.4 per tonne for the year ended 31 December 2004 to US\$13.8 for the year ended 31 December 2005. This increase was primarily due to increased insurance costs of US\$3.7 per tonne and increased transportation costs of US\$2.7 per tonne due to higher railroad tariffs. Exchange rate fluctuations accounted for an increase of US\$0.3 million in distribution costs.

The Energy Division. The Energy Division's distribution costs increased by US\$8.4 million, or 42.2%, from US\$19.9 million for the year ended 31 December 2004 to US\$28.3 million for the year ended 31 December 2005. This increase was primarily due to increases in transportation costs. Exchange rate fluctuations accounted for an increase of US\$0.2 million in distribution costs.

The Logistics Division. The Logistics Division's distribution costs were immaterial.

Selling, General and Administrative Expenses

The Group. The Group's selling, general and administrative expenses increased by US\$81.0 million, or 55.1%, from US\$147.0 million for the year ended 31 December 2004 to US\$228.0 million for the year ended 31 December 2005. Group level selling, general and administrative expenses were US\$14.4 million and US\$18.0 million in the years ended 31 December 2004 and 31 December 2005, respectively. This increase was primarily due to higher expenses relating to social infrastructure and charitable programmes and provisions and a rise in payroll expenses across all of the Group's divisions. The acquisition of railway repair companies was the principal driver of the rise in selling, general and administrative expenses in the Logistics Division, which accounted for 24.7% of the total increase in selling, general and administrative expenses. Exchange rate fluctuations accounted for an increase of US\$4.3 million in selling, general and administrative expenses.

The Ferroalloy Division. The Ferroalloy Division's selling, general and administrative expenses increased by US\$26.9 million, or 38.1%, from US\$70.6 million for the year ended 31 December 2004 to US\$97.5 million for the year ended 31 December 2005. This increase was primarily due to expenses relating to social infrastructure and charitable programmes and higher payroll expenses. Exchange rate fluctuations accounted for an increase of US\$1.8 million in selling, general and administrative expenses.

The Iron Ore Division. The Iron Ore Division's selling, general and administrative expenses increased by US\$17.0 million, or 54.9%, from US\$31.0 million for the year ended 31 December 2004 to US\$48.0 million for the year ended 31 December 2005. This increase was primarily due to expenses relating to social infrastructure and charitable programmes and higher payroll expenses. Exchange rate fluctuations accounted for an increase of US\$1.1 million in selling, general and administrative expenses.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's selling, general and administrative expenses increased by US\$7.0 million, or 33.1%, from US\$21.1 million for the year

ended 31 December 2004 to US\$28.1 million for the year ended 31 December 2005. This increase was primarily due to a rise in property taxes resulting from the revaluation of properties, consulting services and audit costs and payroll expenses. Exchange rate fluctuations accounted for an increase of US\$0.6 million in selling, general and administrative expenses.

The Energy Division. The Energy Division's selling, general and administrative expenses increased by US\$6.5 million, or 60.3%, from US\$10.8 million for the year ended 31 December 2004 to US\$17.3 million for the year ended 31 December 2005. This increase was primarily due to increases in property taxes, payroll expenses and consulting fees. Exchange rate fluctuations accounted for an increase of US\$0.4 million in selling, general and administrative expenses.

The Logistics Division. The Logistics Division's selling, general and administrative expenses increased by US\$20.0 million, or 2,222.2%, from *positive* US\$0.9 million for the year ended 31 December 2004 to *negative* US\$19.1 million for the year ended 31 December 2005. This increase was primarily due to the contribution of a full year of selling, general and administrative expenses incurred by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, compared to only one quarter in 2004, and increases in payroll expenses. The positive value for expenses in 2004 was caused by negative goodwill associated with the acquisition of railway repair companies. Exchange rate fluctuations accounted for an increase of US\$0.5 million in selling, general and administrative expenses.

Operating Profit

The Group. The Group's operating profit declined by US\$145.7 million, or 11.5%, from US\$1,271.7 million for the year ended 31 December 2004 to US\$1,126.0 million for the year ended 31 December 2005. The Ferroalloy Division accounted for 49.8% of the total decline in operating profit, which was primarily related to a decline in the price of silicomanganese, combined with an increase in distribution and selling, general and administrative expenses, and the Iron Ore Division accounted for 46.7% of the total decline in operating profit, which was primarily due to the 19.1% reduction in iron ore sales volume caused by ongoing contractual negotiations with MMK. An increase in Group level expenses reduced operating profit by US\$3.6 million. The exchange rate fluctuations accounted for a US\$14.8 million decrease in operating profit.

The Ferroalloy Division. The Ferroalloy Division's operating profit declined by US\$72.6 million, or 11.9%, from US\$610.6 million for the year ended 31 December 2004 to US\$538.0 million for the year ended 31 December 2005. This decline was primarily due to a decline in the price of silicomanganese and higher selling, general and administrative expenses. Exchange rate fluctuations accounted for a decline of US\$15.6 million in operating profit.

The Iron Ore Division. The Iron Ore Division's operating profit declined by US\$68.0 million, or 14.1%, from US\$480.7 million for the year ended 31 December 2004 to US\$412.7 million for the year ended 31 December 2005. This decline was primarily due to an increase in distribution costs, driven in part by increased shipments to China, and to a 19.1% reduction in sales volume caused by ongoing contractual negotiations with MMK. Exchange rate fluctuations accounted for an increase of US\$5.2 million in operating profit.

The Alumina and Aluminium Division. The Alumina and Aluminium Division's operating profit declined by US\$9.4 million, or 6.7%, from US\$141.1 million for the year ended 31 December 2004 to US\$131.7 million for the year ended 31 December 2005. This decline was primarily due to an increase in production costs. Exchange rate fluctuations accounted for a decline of US\$6.0 million in operating profit.

The Energy Division. The Energy Division's operating profit increased by US\$0.7 million, or 2.3%, from US\$30.7 million for the year ended 31 December 2004 to US\$31.4 million for the year ended 31 December 2005. Exchange rate fluctuations accounted for an increase of US\$0.9 million in operating profit.

The Logistics Division. The Logistics Division's operating profit increased by US\$7.1 million, or 30.8%, from US\$23.1 million for the year ended 31 December 2004 to US\$30.2 million for the year ended 31 December 2005. This increase resulted primarily from operating profit attributable to the

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railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, as well as a shift from current repairs to capital repairs and railroad construction. An increase in the number of owned wagons used on routes also contributed to the growth in operating profit. Exchange rate fluctuations accounted for an increase of US\$0.7 million in operating profit.

Foreign exchange analysis

In order to illustrate performance and facilitate an understanding of the underlying changes in the period, the following table sets out selected financial information of the Group by division for the two years ended 31 December 2005 assuming constant exchange rates. This represents growth calculated as if the exchange rates used to translate the results of operations from the functional currency to the presentation currency in US Dollars had remained unchanged from those used in the previous year. Such amounts are shown as 'FX neutralised' in the table below.

	Ferroalloy Division	Iron Ore Division	Alumina and Aluminium Division	Energy Division	Logistics Division	Group	Consolidated
In millions of US\$							
Operating profit							
12 months 2004	610	481	141	31	23	(14)	1,272
12 months 2005	538	413	132	31	30	(18)	1,126
12 months 2005, FX neutralised	554	407	138	30	29	(18)	1,140
FX impact	(16)	6	(6)	1	1	—	(14)
Adjusted EBITDA							
12 months 2004	669	576	186	66	19	(14)	1,502
12 months 2005	606	479	182	67	47	(18)	1,372
12 months 2005, FX neutralised	620	472	187	65	46	(18)	1,384
FX impact	(14)	7	(5)	2	1	—	(9)

Group and unallocated items

Group and unallocated items increased for each of the three years ended 31 December 2006 and the six months ended 30 June 2007, and comprised US\$14.0 million for 2004, US\$18.0 million for 2005, US\$22.0 million for 2006 and US\$25.0 million for the six months ended 30 June 2007. These costs mainly comprise administration, consulting and salary expenses of the corporate head office, which was established and enhanced during the period under review in preparation for the initial public offering. Additionally, US\$6.0 million for 2006 and US\$20.0 million for the six months ended 30 June 2007 represent costs incurred in relation to the initial public offering which are unallocated and included as exceptional items.

Finance income and finance costs

Finance income and costs primarily relate to loans provided to related parties, such as the Eurasian Bank, and finance costs of the Group's external funding. In June 2007, the Group entered into the Separation Agreements whereby loans receivable totalling US\$200.1 million owed to the Group by related parties, controlled and beneficially owned by the Founders, and loans payable totalling US\$293.8 million owed by the Group to related parties, controlled and beneficially owned by the Founders, were re-assigned to CIM Global Investment NV, which is not a part of the Group but is controlled and beneficially owned by the Founders. Lending to related parties, other than Eurasian Bank, is not expected to continue at the same level as in previous years. The capital structure of the Group has also changed substantially with the introduction of the structured trade finance facility in the second half of 2006. Therefore, the finance costs of the Group are not directly comparable historically and they may not be comparable to the future costs of the Group.

Six months ended 30 June 2007 compared to six months ended 30 June 2006

The Group's finance income increased by US\$16.0 million from US\$11.0 million during the six months ended 30 June 2006 to US\$27.0 million during the six months ended 30 June 2007. This

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increase was due to an increase in loans provided by the Group, mainly to related parties, and an increase in bank interest received.

The Group's finance costs increased by US\$57.0 million from US\$25.0 million during the six months ended 30 June 2006 to US\$82.0 million during the six months ended 30 June 2007. This increase was mainly due to an increase in interest expense due to the Group's increased level of external financing and debt.

Year ended 31 December 2006 compared to year ended 31 December 2005

The Group's finance income increased by US\$12.0 million from US\$12.0 million in 2005 to US\$24.0 million in 2006. This increase was due to an increase in loans provided by the Group, mainly to related parties.

The Group's finance costs increased by US\$10.0 million from US\$40.0 million in 2005 to US\$50.0 million in 2006. This increase was mainly due to an increase in interest expense attributable to the Group's increased level of external financing as well as US\$1,000 million interest-bearing promissory notes issued to ENRC Kazakhstan Holding B.V. and the Committee on 19 December 2006.

Year ended 31 December 2005 compared to year ended 31 December 2004

The Group's finance income increased by US\$7.0 million from US\$5.0 million in 2004 to US\$12.0 million in 2005. This increase was due to an increase in loans provided by the Group, mainly to related parties.

The Group's finance costs increased by US\$18.0 million from US\$22.0 million in 2004 to US\$40.0 million in 2005. This increase was mainly due to increased borrowing during 2005.

Income tax expense

Based on profit before income tax of US\$1,255.0 million, US\$1,098.0 million and US\$971.0 million for the years ended 31 December 2004, 2005 and 2006, respectively, the Group's income tax expense (and resulting effective tax rates) were US\$233.0 million (18.6%), US\$321.0 million (29.2%) and US\$285.0 million (29.4%), respectively. Additionally, based on profit before income tax of US\$441.0 million and US\$586.0 million for the six months ended 30 June 2006 and 2007, respectively, the Group's income tax expense (and resulting effective tax rates) were US\$120.0 million (27.2%) and US\$198.0 million (33.8%), respectively.

The increase in the Group's effective tax rate between 2004 and 2005 was largely driven by the increase in the proportion of profits being taxed in Kazakhstan as opposed to the non-Kazakh trading entities (at a lower effective tax rate) in the year ended 31 December 2005 and thereafter. The Group's effective tax rates for the year ended 31 December 2006 and for the six months ended 30 June 2007 increased mainly due to the change in the mix of profits, non-recognised tax losses, an increase in effective tax rate for the non-Kazakh trading entities and excess profits tax payable in Kazakhstan in 2007.

Looking forward, the Group expects its effective tax rate for the year ended 31 December 2007 to be approximately in line with its effective tax rate for the six months ended 30 June 2007.

Liquidity and Capital Resources

Liquidity

Overview

The following table summarises the Group's cash flows during the three years ended 31 December 2006 and for the six months ended 30 June 2006 and 30 June 2007.

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2007	2006
	In millions of US\$				
Cash flow from operating activities	1,146	1,070	744	475	186
Net cash used for investing activities	(516)	(625)	(578)	(618)	(185)
Net cash used for financing activities	(562)	(459)	—	(15)	42
Net increase/(decrease) in cash and cash equivalents	68	(14)	166	(158)	43
Cash and cash equivalents at beginning of year	108	183	165	336	165
Exchange gains/(losses) on cash and cash equivalents	7	(4)	5	14	26
Cash and cash equivalents at end of period	183	165	336	192	234

unaudited

Cash flow from operating activities

The Group generated US\$475 million in cash from operating activities for the six months ended 30 June 2007 compared to US\$186 million generated during the six months ended 30 June 2006. The increase in cash generated primarily reflected higher achieved ferroalloy prices, which contributed to a US\$230 million increase in the Ferroalloy Division's revenue, as well as higher iron ore prices.

The Group generated US\$744 million in cash from operating activities in 2006, compared to US\$1,070 million in 2005. The lower level of cash generated in 2006 primarily reflected a decline in profit after tax of US\$91 million in 2006. It also reflected changes in working capital in 2006 and 2005.

The Group generated US\$1,070 million in cash from operating activities in 2005, compared to US\$1,146 million in 2004. The decline in cash from operating activities in 2005 resulted primarily from decreased iron ore sales to MMK, decreased sales of electricity and a decline in the price of ferroalloys, which were partially offset by cash generated by the railway repair companies that the Logistics Division acquired in the fourth quarter of 2004, increased sales of ferroalloys, chrome ore, alumina and coal, and higher chrome ore and alumina prices.

Net cash used for investing activities

The Group used US\$618 million in cash for investing activities for the six months ended 30 June 2007 compared to US\$185 million for the six months ended 30 June 2006. This principally reflected capital expenditures of US\$503 million in the six months ended 30 June 2007, primarily invested in the construction of Aluminium of Kazakhstan's aluminium smelter and the repair and replacement of existing mining and processing assets. During that period, the Group also provided loans and placed deposits with related parties, the net effect of which resulted in cash outflow of US\$159 million. Sales of fixed assets resulted in cash inflow of US\$37 million in the six months ended 30 June 2007.

The Group used US\$578 million in cash for investing activities in 2006, compared to US\$625 million in 2005. In 2006, net cash used for investing activities principally reflected capital expenditures of US\$509 million, primarily to invest in the capital assets of certain Kazakhstan production companies, including Aluminium of Kazakhstan, Kazchrome, SSGPO and EEC. The Group also provided loans and placed deposits of US\$91 million with Eurasian Bank, a related party.

The Group used US\$625 million in cash for investing activities in 2005, compared to US\$516 million in 2004. In 2005, net cash used for investing activities principally reflected capital expenditures of US\$570 million, primarily to invest in the capital assets of certain Kazakhstan production

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companies, including Aluminium of Kazakhstan, Kazchrome, SSGPO and EEC. The Group also provided loans and placed deposits of US\$69 million with Eurasian Bank, a related party.

In 2004, net cash used for investing activities primarily reflected capital expenditures of US\$286 million, which principally related to investments in capital assets of certain Kazakhstan production companies, including Aluminium of Kazakhstan, Kazchrome, SSGPO and EEC. The Group also provided loans and placed deposits of US\$183 million with Eurasian Bank, a related party, and used US\$73 million for the acquisition of Zhairmsky GOK and five transportation companies. Finally, the Group used US\$15 million to purchase subordinated bonds issued by Eurasian Bank, a related party. These cash outflows were partially offset by proceeds from sales of fixed assets that totalled US\$43 million.

Net cash used for financing activities

The Group used US\$15 million in cash for financing activities for the six months ended 30 June 2007, whereas US\$42 million in cash was generated by financing activities during the six months ended 30 June 2006. During the six months ended 30 June 2007, cash used in financing activities was driven by a US\$500 million repayment of promissory notes issued by a related party and US\$183 million repayment of other borrowings including the repayment of loans to Kazakh banks, offset by a US\$650 million drawdown under the structured trade finance facility.

In 2006, the Group had no net cash movement due to financing activities because the Group's proceeds from borrowings were offset by repayments of borrowings and the US\$183 million withdrawal of invested capital.

In 2005, the Group used US\$459 million in financing activities, compared to US\$562 million in 2004. In 2005, cash used for financing activities was driven by a US\$399 million net withdrawal of invested capital and US\$88 million of dividends paid to minorities. This outflow was partially offset by US\$28 million of net cash flow from proceeds and the repayment of loans.

In 2004, cash used for financing activities was driven by a US\$593 million net withdrawal of invested capital and US\$2 million of dividends paid to minorities, which was partially offset by US\$33 million of net cash from proceeds and the repayment of loans.

Capital resources

Bank debt

Prior to 2006, the Group's principal source of liquidity for its operations was cash provided by its operating activities and the Group funded its working capital requirements through short-term financing facilities. As part of the legal restructuring initiative in 2006, the Group created a liability in favour of its shareholders through the issue of promissory notes in the amount of US\$1,000 million.

In parallel to the restructuring, the Group secured a structured trade finance facility in the amount of US\$1,000 million from affiliates of certain of the Joint Bookrunners and other lenders, which was subsequently increased to US\$1,480 million in 2007. This facility is denominated in US Dollars, bears interest at a rate of LIBOR plus 1.35% and is repayable in 48 equal monthly instalments beginning in January 2008. The loan is secured by grants of security over certain of the Ferroalloy Division's accounts and sales contracts backed by a guarantee given by Kazchrome, the Ferroalloy Division's principal operating company. The Group agreed to certain restrictive covenants in respect of Kazchrome, as guarantor of the loan, which prohibit Kazchrome from having total debt of greater than US\$1,500 million outstanding at any time during the duration of the facility. In addition, the guarantee provides that Kazchrome may pay dividends only if the amount of a dividend in any financial year does not exceed Kazchrome's net income for the financial year. Kazchrome may still declare a dividend in excess of net income if immediately after payment of such dividend the ratio of Kazchrome's total equity to total debt would be equal to or greater than 0.4:1. The guarantee places certain restrictions on Kazchrome's activities including, *inter alia*, to make loans, give guarantees or indemnities, create security interests, or change its business, and requires Kazchrome to, *inter alia*, maintain all authorisations applicable to it, comply with all laws applicable to it,

maintain certain insurance coverage and maintain full ownership of the ferroalloy production facilities.

In the six months ended 30 June 2007, the Company had drawn down US\$650 million of the trade finance facility. The Company used US\$500 million to repay a portion of the previously outstanding US\$1,000 million promissory notes payable to the Company's shareholders and US\$150 million to refinance a third-party short-term loan facility provided to the Logistics Division and for general corporate purposes. In July 2007, the Group repaid an additional US\$250 million of the promissory notes, which was financed through an additional draw down of the structured trade finance facility. The remaining balance of US\$250 million (and outstanding interest) was repaid in December 2007.

Capital expenditures

In the six months ended 30 June 2007, the Group's capital expenditures were US\$428 million, compared to US\$206 million during the six months ended 30 June 2006 and were mostly driven by capital investments in and repairs to the Group's Kazakh production assets. The expenditures in the six months ended 30 June 2007 primarily related to:

- the continued construction of the aluminium smelter and other projects at Aluminium of Kazakhstan;
- additional construction works and purchases of equipment, including Belaz trucks, towing aggregates and excavators at SSGPO; and
- capital construction works at current production facilities as well as projects relating to the development and enhancement of existing operations to increase production at Kazchrome.

In addition, there were significant expenditures at EEC, most of which related to the reconstruction of a block at the power station, reconstruction of an electricity distribution unit, continued modernisation of the ash dump and replacement of air electric filters for exhaust gas purification.

The Group's budgeted capital expenditures for the six months ending 31 December 2007 and for 2008 are US\$511 million and US\$1,320 million, respectively. These funds are expected to come from a combination of operating cash flows and proceeds from the Global Offer, and are expected to be used primarily to invest in new construction and development projects.

In 2004, 2005 and 2006, the Group's capital expenditures were US\$356 million, US\$507 million and US\$563 million, respectively. During 2006, expenditures primarily related to:

- the continued construction of the aluminium smelter and other projects at Aluminium of Kazakhstan;
- the reconstruction works relating to the crushing workshop and purchase and maintenance of equipment as well as the construction of the fraction road-metal production complex and railway lines in SSGPO's Kacharsky pit; and
- the addition of a pellets warehouse, smelting furnaces, buildings and other equipment as well as continued construction of gas purification equipment, a coke production workshop and furnace discharge storage at Kazchrome. There were also continued investments in Kazchrome's 10th Anniversary of Kazakhstan Independence underground mines.

In addition, there were significant expenditures at EEC, most of which related to the reconstruction of a block at the power station, continued modernisation of the ash dump and replacement of air electric filters for exhaust gas purification.

During 2005, expenditures primarily related to:

- the addition of electric power station equipment and pellet production equipment, smelting furnaces, building and other equipment as well as continued construction of gas purification equipment and a coke production workshop at Kazchrome. There were also investments in the Kazchrome's 10th Anniversary of Kazakhstan Independence underground mines;
- the construction of the aluminium smelter and other projects at Aluminium of Kazakhstan; and

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- the purchase and maintenance of excavators, induction sets, magnetic separators, drilling rigs, loaders, ball mills, cone crushers, vacuum filters, trucks and bulldozers, the construction of a railway station at SSGPO's Kacharsky pit and significant repair of its Sokolovskaya underground mine.

In addition, there were significant expenditures at the Logistics Division relating primarily to the purchase and capital repairs of wagons and at EEC relating to the beginning of work on the reconstruction of a block at its power station.

During 2004, expenditures primarily related to:

- construction works at current production facilities as well as projects relating to the development and enhancement of existing operations to increase production at Kazchrome;
- the purchase and maintenance of excavators, diesel locomotives, drilling rigs, Belaz trucks, magnetic separators, loaders, pumps, crushing units and dumpcars at SSGPO; and
- the capital maintenance or replacement of equipment at Aluminium of Kazakhstan.

Contractual obligations

The following table sets out the Group's material contractual obligations and their maturity as at 30 June 2007. See Notes 26, 27 and 33 to the Combined and Consolidated Financial Statements in Part V of this Prospectus for additional information about the Group's contractual obligations.

	Within one year	Between two and five years	More than five years	Total
		In millions of US\$		
Borrowings	153	1,118	—	1,271
Related party	—	508	—	508
Asset retirement obligations	1	—	59	60
Capital expenditures—committed	251	109	—	365

Borrowings

On 15 December 2006, ENRC Marketing entered into a US\$1,000 million structured trade finance facility that was subsequently increased to US\$1,480 million. See "—Liquidity and Capital Resources—Capital resources—Bank debt" above.

In April 2006, Zhairam issued US\$31.0 million of 8% non-convertible bonds due 5 April 2013. The bonds, which were listed on the Kazakh Stock Exchange, resulted in total proceeds to the Group of US\$31.0 million. The bonds initially bore a coupon of an annualised rate of 8%. Starting from 5 October 2006, the coupon changed to a floating rate equal to the official Kazakh inflation rate plus a 1% mark-up with lower and upper limits being fixed at 2% and 10% per annum. Interest on the bonds is payable on 5 April and 5 October of each year. These were repaid in the six months to 30 June 2007.

Related party borrowings

US\$800 million of non-current borrowings and US\$200 million of current borrowings relate to promissory note agreements dated 19 December 2006, in which the Group promised to pay the principal sums of US\$751 million and US\$249 million to ENRC Kazakhstan Holding B.V. and to the Committee, respectively, see Note 2 to the Combined and Consolidated Financial Statements in Part V of this Prospectus. These payments were to be made in five equal instalments of US\$150.2 million to ENRC Kazakhstan Holding B.V. and US\$49.8 million to the Committee on 19 December each year, starting in 2007 and ending in 2011. The Group, however, made earlier repayments at its discretion. The unpaid principal balances bore interest at "Twelve-Month US Dollar LIBOR" plus 2 per cent. In the six months ended 30 June 2007, US\$500 million was prepaid. In July 2007 an additional US\$250 million was prepaid. The remaining balance of US\$250 million (and outstanding interest) was repaid in December 2007.

Kazakhstan Minerals Resource Corporation (“KMRC”)

EEC concluded an Investment Agreement with KMRC according to which KMRC committed to advance to EEC US\$5 million annually from 2000 until 2009 and US\$19.6 million annually from 2010 until 2024. The total amount to be advanced was equal to US\$343.7 million. The carrying amount of this loan was US\$9 million at 30 June 2007 and US\$13 million at 31 December 2006 (2005: US\$13 million; 2004: US\$13 million). In accordance with the terms of the Separation Agreements, the benefits of these loans were assigned to ENRC NV and are now intra-Group loans. In light of the legal restructuring, the Committee agreed to annul KMRC’s obligation to advance funds on condition that the Company committed in writing to the planned capital expenditure investment programme at EEC.

Kherson Holding B.V.

The Group has received financing loans from Nordem Overseas Limited, a related party, for the amount of US\$54 million. The loan agreements specify an interest rate of zero per cent., and that the principal is to be repaid by 2010. During 2005 all rights and responsibilities under these loan agreements were transferred to Kherson Holding B.V., also a related party. The carrying amount of these loans at 31 December 2006 was US\$28 million (2005: US\$33 million; 2004: US\$40 million). As at 30 June 2007 these loans had been reassigned to ENRC NV pursuant to the Separation Agreements.

CIM Global Investment B.V.

In December 2006, CIM Global Investment B.V. provided a short-term loan of US\$47 million to the Group for the purpose of financing the construction of the aluminium smelter. The loan bore interest at the rate of 5% and was assigned in full to ENRC NV as at June 2007.

ENRC Kazakhstan Holdings B.V.

In December 2006, ENRC Kazakhstan Holdings B.V. provided a short term loan of US\$139 million to the Group for the purpose of financing the construction of the aluminium smelter. The loan bore interest at the rate of LIBOR + 1% and was assigned in full to ENRC NV as at June 2007.

In addition to the contractual obligations set out above, as part of its acquisition of 31.76% of Aluminium of Kazakhstan’s shares, the Group agreed to construct an aluminium smelter in Kazakhstan with a pre-defined throughput capacity to be commissioned by 31 December 2007. See Notes 1 and 2 to the Combined and Consolidated Financial Statements in Part V of this Prospectus. The Directors expect the aluminium smelter to commence production prior to 31 December 2007 in accordance with the conditions set out in the sale and purchase agreement. In the unlikely event the conditions are not met, the legal title to the 31.76% shareholding in Aluminium of Kazakhstan would revert to the Committee and the purchase price paid by the Group and the Group’s expenses incurred in connection with the purchase of the shares and the construction of the aluminium smelter would not be reimbursed.

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

- Alumina—ENRC has entered into a contract with UC RUSAL, a large aluminium producer, to supply a minimum of 1,000,000 tonnes of alumina per annum. This contract expires on 31 December 2016. Pricing is determined by a formula linked to the LME aluminium price; and
- Iron ore—ENRC has entered into a contract with MMK, a large Russian steel producer, to supply up to 15 million tonnes of iron ore per annum. This contract expires in 2017. Pricing is determined by reference to published price indices.

The Group has obligations under its subsurface use contracts and licences, calculated as a percentage of the revenue or expense associated with the contract or licence, to provide annual (or quarterly) amounts towards the cost of rehabilitating each mine or group of mines. This amount is generally from 0.1% to 1% of operational expenses for mines or from 0.1% to 1% of sales revenue. Certain of the subsurface use contracts and licences require that these amounts be held in a fixed account, while others require such amounts to be accrued.

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In addition, abandonment programs are developed by the Group in conjunction with the Kazakh government to estimate the future liability of site restoration. As of 30 June 2007, the Group had a site restoration provision of US\$60.0 million, reflecting the discounted value of the estimated cost of the abandonment programmes.

The Group is also obligated under all of its subsurface use contracts and licences to invest in training the local workforce. In approximately half of its contracts and licences, minimum obligations have been agreed with the Kazakh government and are reflected in the table above. In the other contracts and licences, these training obligations are calculated as a function of the revenue or expenses associated with such contract or licence. In such instances, this amount is generally not less than 0.1% of the revenue, operational expenses or extraction expenses associated with the relevant contract or licence.

Disclosures about Market Risk

The following information should be read in conjunction with the financial information set out in Section B of Part V of this Prospectus. The Group is exposed to changes in commodity prices, foreign exchange rates and interest rates through its operations.

Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices. The principal exposures are to the price of chrome ore, high-, medium- and low-carbon ferroalloys, ferrosilicomanganese, iron ore and primary aluminium from which the price of alumina is derived. Prices of these commodities are generally quoted in US Dollars. Of the foregoing products, only the price of primary aluminium is determined by reference to a publicly traded price. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so. See “—Significant Factors Affecting the Group’s Results of Operations—Commodity prices” above.

ENRC does not hedge its exposure to the risk of fluctuations in the price of its products and currently does not intend to do so in the future.

Foreign currency exchange rate risk

The Group has translated currency exposures. Such exposures arise from sales or purchases by an operating subsidiary in currencies other than the subsidiary’s functional currency. The currency giving rise to this risk is primarily the US Dollar for revenue and certain cash deposits and loans. As at 30 June 2007, the Group had entered into a number of foreign exchange forward contracts to hedge part of this translation risk. Management estimates that those contracts effectively provide for an average rate of US\$1/KZT120 over three years and represent approximately 25% of the Group’s Kazakh Tenge cost base. Any remaining amount remains unhedged. See “—Significant Factors Affecting the Group’s Results of Operations—Exchange rates” above.

Interest rate risk

The Group has financial assets and liabilities that are exposed to changes in market interest rates. Changes in interest rates impact primarily deposits, loans and borrowings by changing their future cash flows (variable rate). Management does not have a formal policy of determining how much of the Group’s exposure should be at fixed or variable rates and the Group does not use hedging instruments to minimise its exposure. However, at the time of taking new loans or borrowings, management uses its judgement to determine whether it believes that a fixed or variable rate would be more favourable for the Group over the expected period until maturity. The Group’s significant interest bearing assets are disclosed in Notes 20, 21, 23 and 26 to the Combined and Consolidated Financial Statements in Part V of this Prospectus. The majority of these assets and liabilities bear fixed interest and are thus exposed to fair value interest rate risk.

Off-Balance Sheet Arrangements

The Group has no off-balance sheet arrangements.

Critical Accounting Policies and Use of Accounting Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Ore reserve estimates

The Group's ore reserves are based on its best estimate of product that can be economically and legally extracted from the relevant mining properties. Estimates are developed after taking into account a range of factors including quantities, ore grades, production techniques and recovery rates, forecast commodity prices and production costs.

The Group's estimates are supported by geological studies and drilling samples to determine the quantity and grade of each ore body. Significant judgement is required to generate an estimate based on the geological data available.

Ore reserve estimates are calculated based on the JORC Code which requires the use of reasonable assumptions, including:

- future production estimates—which include proved and probable reserves, resource estimates and committed expansions;
- expected future commodity prices, based on current market price, forward prices and the Group's assessment of the long term average price; and
- future cash costs of production, capital expenditure and rehabilitation obligations.

Ore reserve estimates may change from period to period. This may impact the Group's financial results. Such changes in reserves may impact depreciation charges, asset carrying values and asset retirement obligation provisions.

Life of mines

Contracts for subsurface use expire between 2009 and 2041. Management expects that the subsurface use contracts will be extended at a nominal cost and until the end of the lives of the related mines. Any change to this assumption may impact the Group's financial results by affecting depreciation charges, asset carrying values and asset retirement obligations, as these have been recorded on the assumption that the subsurface use contracts will be extended until the end of the mine life. If the contracts will not be renewed at their current expiry dates, the carrying amount of property, plant and equipment to be written off at the day of expiry will be US\$339.0 million as at 30 June 2007 (US\$329.5 million as at 31 December 2006).

Determination of deemed cost

The Group used fair value as the deemed cost of certain property, plant and equipment on transition to IFRS (see Note 1 to the Combined and Consolidated Financial Statements in Part V of this Prospectus). For that purpose, the management of the Group engaged an independent appraisal firm to perform the valuation. The methodology used was depreciated replacement cost. In applying the depreciated replacement cost, certain key elements needed to be considered, such as:

- an understanding of the asset, its function and its environment;
- research and analysis to determine the remaining physical life (to estimate physical deterioration) and economic life of the asset;
- knowledge of the business requirements (to estimate functional/technical obsolescence);

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- familiarity with the class of property through access to available market data;
- knowledge of construction techniques and materials (to estimate the cost of a modern equivalent asset); and
- sufficient knowledge to determine the impact of economic/external obsolescence on the value of the improvements.

In addition, the valuation was tested to ensure that there was sufficient projected profitability of the entity to sustain the valuation. The Group used its judgement to select the assumptions for this analysis. The carrying amount of property, plant and equipment would be an estimated US\$33 million lower or US\$59 million higher were the discount rate used in the cash flow analysis to differ by 10 percent from management's estimates. Any changes to the other assumptions could affect the carrying amount and the remaining useful lives of the items of property, plant and equipment.

Provision for asset retirement obligations

Provision is made for asset retirement obligations when the related environmental disturbance takes place. Provisions are recognised at the net present value of future expected costs as outlined in Note 2 to the Combined and Consolidated Financial Statements in Part V of this Prospectus.

The provision recognised represents management's best estimate of the costs that will be incurred but significant judgement is required as many of these costs will not crystallise until the end of the life of the mine. Estimates are reviewed annually and are based on management's interpretation of compliance with current environmental legislation in Kazakhstan. Significant changes in environmental legislation, restoration techniques and estimates of contamination will result in changes to provisions from period to period.

The engineering estimates evaluated by management are reviewed annually by independent mining engineering consultants.

Impairment

The effects of exchange rate and commodity price changes on the asset values of the businesses in the Group relative to their carrying values are monitored closely. No impairment charge was recorded in the periods presented.

Consolidation of Aluminium of Kazakhstan

The Group acquired an additional 31.76% of Aluminium of Kazakhstan in 2003, increasing the Group's holding to 96.6%. As part of the purchase agreement, the Group committed to commissioning prior to 31 December 2007 the first stage of an aluminium smelter with an initial annual capacity of at least 60,000 tonnes of aluminium per annum. Failure to satisfy this condition could result in the legal title to the 31.76% shareholding reverting to the Government of Kazakhstan. The Group commenced pre-production in September 2007 and management is confident that the required capacity of 60,000 tonnes by 31 December 2007 will be achieved.

Valuation of the Government Transaction

As described in Note 1 to the Combined and Consolidated Financial Statements in Part V of this Prospectus, on 19 December 2006, the Committee exchanged its shares in the principal mining and metal processing subsidiaries for a 24.9% shareholding in ENRC NV; on the same day it exchanged its ENRC NV shares for 24.9% of the ordinary share capital of the Company and loan notes of US\$248.7 million.

At 19 December 2006, the Company was a privately held company whose shares were not publicly traded. Accordingly, it was necessary to establish an appropriate basis for determining the fair value of shares issued, as in the absence of an active market an alternative valuation technique is required.

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Management determined that the transaction in 2006, pursuant to which the three Founder Shareholders sold 25% of ENRC Kazakhstan Holding B.V. (the then parent company of the ENRC Group) for US\$751 million to Mr. V S Kim (the "Kim transaction"), could be used as an appropriate reference value for the 24.9% Government shareholding. An additional 10% uplift was considered to reflect the additional value created during 2006 by the Group following the completion of the legal restructuring and preparation for a 2007 IPO as well as movements in market indices in 2006. The deemed fair value of the 24.9% shareholding in the Company amounted to US\$1 billion which resulted in goodwill amounting to US\$384 million.

Management's assertion was on the basis that:

- The transaction with Mr. V S Kim was between knowledgeable and willing parties.
- Mr. V S Kim purchased his interest in the knowledge of the minority shares owned by the Government and the future plans of the Government to exchange these for shares in the Company at a later date.
- The exchange ratio calculated for the Government transaction made reference to the basis upon which the Kim transaction was calculated.
- Further, during 2006, the Kim transaction also included a put option to Kazakhmys Plc whereby Kazakhmys could choose to acquire Mr. Kim's share in ENRC for US\$751 million plus a 10% mark up.

The promissory notes for US\$1 billion, dated 19 December 2006, were issued by the Group. US\$248.7 million related to the Committee and was to be payable in five equal instalments of US\$49.8 million on December 19 each year, starting in 2007 and ending in 2011. The unpaid principal balances bore interest at "Twelve-Month US Dollar LIBOR" plus 2%. As stated in Note 1 to the Combined and Consolidated Financial Statements in Part V of this Prospectus, the issue of the aforementioned loan note was recorded as a distribution. In the six months ended 30 June 2007, US\$124.4 million of the promissory notes held by the Committee were prepaid, and in July 2007, an additional US\$62.2 million of these promissory notes were prepaid. The remaining balance of US\$62.1 million (plus outstanding interest) was repaid in December 2007.

Tax legislation

Kazakh tax legislation and practice are evolving and, therefore, are subject to varying interpretations and frequent changes that may be applied retroactively. The interpretation of tax, transfer pricing and excess profit tax legislation by the Kazakh tax authorities, as applied to the transactions and activities of the Group, may not coincide with that of the Group's management. As a result, tax authorities may challenge transactions and the Group may be assessed additional taxes, penalties and fines. Tax periods remain open to review by the Kazakh tax authorities for five years.

As stated above, there is a risk that the Kazakh tax authorities may challenge the methods applied to transfer pricing and excess profit tax. While any challenge may result in material claims being made against the Group, the Group's management believes that, based on recent clarifications obtained from the relevant authorities, they would be successful in defending any such challenge. Accordingly, at 30 June 2007 and 31 December 2006 no provision for potential tax liabilities had been recorded (2005 and 2004: no provision).

The Directors expect that by the end of December 2008 the Kazakh tax authorities will commence an audit of the Group's tax affairs for the three years ended 31 December 2006.