



26 April 2012

## **Eurasian Natural Resources Corporation PLC Annual Financial Report**

In compliance with Listing Rule 9.6.1R, the Company has submitted a copy of each of the following documents to the National Storage Mechanism. These documents will shortly be available for inspection at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do):

- Annual Report and Accounts for the year ended 31 December 2011;
- Notice of Annual General Meeting ('AGM') 2012; and
- Form of Proxy for the AGM 2012.

As required by DTR 6.3.5R, the Company confirms the Annual Report and Accounts for the year ended 31 December 2011, the Notice of AGM 2012 and the Form of Proxy have been posted to shareholders or otherwise made available today. All of these documents (except for the Form of Proxy) can be found on the Company's website at [www.enrc.com](http://www.enrc.com).

The information detailed below is supplementary to the Company's Final Results Announcement released on 21 March 2012. Pursuant to DTR 6.3.5R this information is published in full unedited text through a Regulatory Information Service. This material should be read in conjunction with, and is not a substitute for, the full Annual Report and Accounts. Page and note references in the text below refer to page numbers in the Annual Report and Accounts for the year ended 31 December 2011.

### **Risk Management**

#### **Risk and the Board of Directors**

The Board is ultimately responsible for maintaining a sound risk management and internal control system. Our system of risk management and internal control is designed to identify, manage and mitigate the risk of failure to achieve business objectives. The system provides reasonable and not absolute assurance against material misstatement or loss.

There are on-going processes in place for identifying, assessing, managing, monitoring and reporting on the significant risks faced by the Group. These processes are in place for the year under review up to, and including, the date of the approval of the Annual Report and Accounts.

In the Annual Report and Accounts for the preceding year, we reported on 10 principal risks. These risks were reviewed during the course of the current year by the Executive Committee, which determined that our risk environment had changed:

Positively as a result of:

- Continued enhancement of our risk reporting and compliance framework driving further accountability and where necessary additional remediation plans;
- Greater focus on 'tone from the top' to enhance our risk culture; and
- Implementation of key risk management action plans.

Negatively as a result of:

- Downgrade of the Company's credit rating;
- Increased competition for high calibre mining talent; and
- Increased external scrutiny.

Accordingly, the principal risks to the execution of the Group's business strategy are shown in the rest of this section. We have explained the nature of each risk, identifying the possible impact and the associated strategic priorities. In addition, we have described the mitigating activity to address those risks, as well as our plans for further enhancements.

| Risk  | Mitigation  |
|---|---|
| <b>Project Management</b>   |   |
| <b>Context</b>  |   |
| The approved capital expenditure programme for 2012 is significant and includes large scale expansion projects in existing and acquired operations.   | <ul style="list-style-type: none"> <li>• A Group Investment Policy has been approved by the Board and its main principles include:</li> </ul>   |
| <b>Risk</b>   |   |
| Failure to deliver major capital projects within the agreed time, cost and quality criteria.  | <ul style="list-style-type: none"> <li>– Stage gated approach to project selection;</li> <li>– Clear governance framework;</li> <li>– Wider decision making support accessible;</li> <li>– Group investment procedures; and</li> <li>– Investment valuation manual.</li> </ul>  |
| <b>Possible impact</b>  |   |
| Lower long-term growth profitability and reputation.  |   |
| <b>Associated strategic priorities</b>  |   |
| Continue expansion and development of existing reserves and capacity.   | <ul style="list-style-type: none"> <li>• Specific project management teams.</li> <li>• A project assurance programme.</li> <li>• Quarterly review and analysis of capital projects and reporting on project progress to the Executive Committee.</li> <li>• Planned implementation and training of personnel on a Group-wide project management code of practice.</li> <li>• A new IT solution to support long-term sensitivity modelling.</li> </ul> |
| <b>Business development</b>   |   |
| <b>Context</b>  |   |
| Industry consolidation continues. The Group made a number of acquisitions in 2011 and will continue to consider opportunities if appropriate to do so.  | <ul style="list-style-type: none"> <li>• The Board defines the investment strategy.</li> <li>• The Investment Committee oversees acquisition activity, approves targets and supervises execution.</li> </ul>  |
| <b>Risk</b>   |   |
| Failure to identify opportunities to participate in value-adding transactions, overpaying for a transaction, inaccurate business case or poor integration leading to inadequate return on investment. | <ul style="list-style-type: none"> <li>• Potential transactions are subject to analysis to ensure consistency and high standards.</li> </ul>  |
| <b>Possible impact</b>  |   |
| Lower long-term growth, profitability and reputation.   | <ul style="list-style-type: none"> <li>• An approved investment criteria for assessing potential targets has been developed and implemented.</li> </ul>   |
| <b>Associated strategic priorities</b>  |   |
| <p>Add value and customer diversity by expanding product portfolio.</p> <p>Expand our asset portfolio in natural resources worldwide.</p>   | <ul style="list-style-type: none"> <li>• Formal integration plans are now being developed for each acquisition, progress will be monitored and reported to the relevant committees.</li> <li>• In 2011 an Investment Policy, which also includes policy on divestment and sale of assets, was approved.</li> </ul>  |

| <b>Legal and regulatory breach</b>   |   |
|--|---|
| <b>Context</b>   |   |
| We are an emerging markets business and aware that some of the jurisdictions in which the Group operates pose particular and often heightened reputational issues that need to be managed appropriately. Natural resources businesses operating in emerging markets are subject to additional regulatory scrutiny. | <ul style="list-style-type: none"> <li>• We adhere to the principles of self-regulation backed by appropriate policies and management review.</li> <li>• Our Code of Conduct has been revised to bring more prominence and clarity on behaviours and accountability.</li> </ul>   |
| <b>Risk</b>  |   |
| Failure to comply with laws and regulations regarding: <ul style="list-style-type: none"> <li>• anti-bribery;</li> <li>• anti-corruption;</li> <li>• anti-money laundering; and/or</li> <li>• sanctions.</li> </ul>  | <ul style="list-style-type: none"> <li>• We are developing a high calibre Group-wide Compliance function.</li> <li>• We have launched web-based ethics and compliance training across the Group, as well as targeted face-to-face training.</li> </ul>  |
| <b>Possible impact</b>   |   |
| Share price devaluation, financial penalties and criminal prosecutions.  | <ul style="list-style-type: none"> <li>• Our whistleblowing hotline has been upgraded.</li> </ul>   |
| <b>Associated strategic priorities</b>   |   |
| <p>Commit to high standards of corporate social responsibility and sustainable development.</p> <p>Expand our asset portfolio in natural resources worldwide.</p>  | <ul style="list-style-type: none"> <li>• External books and records review and adequate procedures reviews underway.</li> <li>• A revised Whistleblowing and Investigations Policy has been implemented during the year.</li> <li>• We are developing a Contract Due Diligence Policy.</li> <li>• We have engaged third party advisors to assist with assessing compliance for record retention requirements.</li> <li>• We have established an Anti-bribery and Corruption Steering Committee (see page 58 for further details).</li> <li>• In 2012, there will be continued focus on 'tone from the top'.</li> <li>• We will continue to further enhance the adequacy and robustness of Group-wide legal and regulatory processes and compliance procedures.</li> <li>• In 2012 we will introduce compliance monitoring audits in business units.</li> <li>• Group-wide risk assessments for compliance issues are being undertaken and will be completed in 2012.</li> </ul> |

|   |  |
|---|--|
| <b>Management capability</b>  |  |
| <b>Context</b>  |  |
| Over the last three years we acquired a number of companies in Africa and Brazil. These regions will require strong leadership and an experienced senior management team to integrate and operate the acquired companies effectively.   | <ul style="list-style-type: none"> <li>• A new Global HR Director has been recruited. His key focus areas include: <ul style="list-style-type: none"> <li>– Developing a 10-year HR strategy;</li> <li>– Enhancing the HR functional capability;</li> <li>– Enhancing the Group's HR policies and procedures;</li> <li>– Reviewing the Group's approach to compensation and benefits; and</li> <li>– Further developing the Group's approach to resourcing, learning and development.</li> </ul> </li> </ul>                   |
| <b>Risk</b>   |  |
| Failure to attract, retain and develop key management talent.   |  |
| <b>Possible impact</b>  |  |
| Inability to execute long-term growth strategy, lower long-term growth, lower profitability, corporate reputation.  |  |
| <b>Associated strategic priorities</b>  |  |
| Continue expansion and development of existing reserves and capacity.   |  |
| Commit to high standards of corporate social responsibility and sustainable development.  |  |
| <b>Organisational development</b>   |  |
| <b>Context</b>  |  |
| Originally the Group's operating plants were based in Kazakhstan with a Sales and Marketing function based in Switzerland. We now operate a large scale global business and it is important that our governance structures, controls and clear delegations of authority are appropriate for our new business. | <ul style="list-style-type: none"> <li>• A review of the organisational structure is being carried out.</li> <li>• A Group governance framework is being developed.</li> <li>• Planned implementation of a Group-wide project management code of practice for the ENRC Group.</li> <li>• Further development of in-house project management capability for large capital expenditure projects in 2012.</li> </ul> <p>Details of our governance structure are set out in the Corporate Governance Report on pages 51 to 58.</p> |
| <b>Risk</b>   |  |
| Ineffective delegation of authority, governance structures and frameworks can impact on the delivery of the Group's strategic objectives.   |  |
| <b>Possible impact</b>  |  |
| Failure to deliver strategic objectives, lower long-term growth, corporate reputation and financial return.   |  |
| <b>Associated strategic priorities</b>  |  |
| Continue expansion and development of existing reserves and capacity.   |  |
| Expand our asset portfolio in natural resources worldwide.  |  |
| Commit to high standards of corporate social responsibility and sustainable development.  |  |
|   |  |

|  |   |
|--|---|
| <b>Liquidity</b>   |   |
| <b>Context</b>   |   |
| Over the last three years the Group executed a number of acquisitions and purchased businesses in Africa and Brazil. The Group has also approved a number of large scale greenfield and brownfield projects in Brazil and Africa that will require significant additional financing. The Group has recently been downgraded by both Standard and Poor's ('S&P') and Moody's credit rating agencies. The Group's credit ratings are now BB- with S&P and BA3 with Moody's, with both ratings on a negative outlook. It is possible that as a result of this action the Group's access to future sources of debt finance may be restricted.                                    | <ul style="list-style-type: none"> <li>• The Group Treasury policies and procedures are updated regularly and monitoring and reporting processes continue to be enhanced.</li> <li>• Building and maintaining relationships with financial providers and credit rating agencies.</li> <li>• Cash flow forecasts are regularly prepared and presented to the Board.</li> <li>• Annual budgeting process.</li> <li>• Quarterly forecasting process.</li> <li>• On a longer-term horizon, the five-year financing plan enables us to develop a long-term funding strategy for the Group.</li> <li>• Formal CFO approval and sign-off for all major projects.</li> <li>• Investment Committee oversight.</li> </ul> |
| <b>Risk</b>  |   |
| Failure to arrange or provide sufficient financing for the Group's operating, investment and mergers and acquisitions activities.  |   |
| <b>Possible impact</b>   |   |
| Inability to meet payment obligations and restriction of the Group's ability to raise finance, or inadequate funds available to complete projects and make further acquisitions.   |   |
| <b>Associated strategic priorities</b>   |   |
| Continue expansion and development of existing reserves and capacity.<br><br>Add value and customer diversity by expanding the product portfolio.<br><br>Expand our asset portfolio in natural resources worldwide.  |   |
| <b>Political risk</b>  |   |
| <b>Context</b>   |   |
| <p>We are an emerging markets business and most of the Group's operations are based in fast developing emerging markets economies. Our business could be adversely affected by the behaviour of, or new regulations that could be introduced by, the governments of the countries concerned, for example:</p> <ul style="list-style-type: none"> <li>• Re-nationalisation;</li> <li>• Controls on imports, exports and sales prices;</li> <li>• Terms of mining and other licences;</li> <li>• Restriction on foreign ownership of assets;</li> <li>• Restriction on the remittance of funds;</li> <li>• New forms or rates of taxation, duties and royalties; or</li> </ul> | <ul style="list-style-type: none"> <li>• The Group's existing senior management team possesses extensive experience of operating in Eurasia, Africa and developing markets.</li> <li>• Constructive engagement with governments and external stakeholders.</li> <li>• Appropriate investment to improve the economic and social impact of our businesses in local communities working in partnership with governments.</li> </ul>   |

|   |   |
|---|---|
| <p>• New policies or systems.</p>   |   |
| <p><b>Risk</b></p>  |   |
| <p>The risk of strategic, financial, or personnel loss as a result of non-market factors such as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labour and developmental), or events related to political instability (terrorism, riots, coups, civil war and insurrection).</p> |   |
| <p><b>Possible impact</b></p>   |   |
| <p>Business repatriation, significant loss of earnings, financial volatility.</p>   |   |
| <p><b>Associated strategic priorities</b></p>   |   |
| <p>Maintain and improve upon low-cost operations.</p>   |   |
| <p>Expand our asset portfolio in natural resources worldwide.</p>   |   |
| <p><b>Technical disaster</b></p>  |   |
| <p><b>Context</b></p>   |   |
| <p>Technological processes within the mining and metals industry can be susceptible to incidents and disasters, which may have potential significant consequences.</p>  | <ul style="list-style-type: none"> <li>• Site safety declarations are in place for each of the Kazakhstani hazardous sites, and these examine potential incidents related to site operations and their impact.</li> </ul> |
| <p><b>Risk</b></p>  | <ul style="list-style-type: none"> <li>• Technical committees provide input into the operational and capital investment processes of the established businesses.</li> </ul>   |
| <p>Large-scale technical incident leading to loss of life, environmental impact and interruption to business operations.</p>  | <ul style="list-style-type: none"> <li>• Further development of risk management and post-incident crisis management plans are under way.</li> </ul>   |
| <p><b>Possible impact</b></p>   | <ul style="list-style-type: none"> <li>• For each of the Kazakhstani sites, the Group has developed post-incident plans to minimise the impact of an incident.</li> </ul>   |
| <p>Corporate reputation, prospects for long-term growth, financial profitability, loss of life, environmental damage.</p>   | <ul style="list-style-type: none"> <li>• In 2012 a new Group-wide project to enhance our business continuity plans was initiated.</li> </ul>  |
| <p><b>Associated strategic priorities</b></p>   | <ul style="list-style-type: none"> <li>• Operational site risk surveys are conducted on a rotational basis.</li> </ul>  |
| <p>Commit to high standards of corporate responsibility and sustainable development.</p>  | <ul style="list-style-type: none"> <li>• Appropriate property damage and business interruption insurance is purchased.</li> </ul>   |
| <p>Expand our asset portfolio in natural resources worldwide.</p>   | <p>For further details of safety performance please refer to the Sustainable Development review on pages 39 to 42 and to the Sustainable Development Report, to be published separately.</p>                              |

|   |   |  |
|---|---|--|
| <b>Commodity pricing volatility</b>   |   |  |
| <b>Context</b>  |   |  |
| The prices of our core products have been historically volatile and have fluctuated significantly in response to changes in supply and demand, market uncertainty, the performance of global and regional economies and cyclicalities in industries that purchase these products. | <ul style="list-style-type: none"><li>• The Group regularly monitors market prices, global sales volumes and internal levels of inventory.</li><li>• Sensitivity analysis is performed to stress test business models.</li></ul>  |  |
| <b>Risk</b>   |   |  |
| A substantial decline or volatility in commodity prices could materially affect the Group's business and financial results as well as the cash flow projections.  | <ul style="list-style-type: none"><li>• The Sales and Marketing function produces regular forecasts of the sales volumes and prices for each of the Group's commodities.</li><li>• The Sales and Marketing function discusses and agrees appropriate production and distribution plans with the management of the operating companies.</li></ul>  |  |
| <b>Possible impact</b>  |   |  |
| Lower profitability, lower long-term growth.  |   |  |
| <b>Associated strategic priorities</b>  |   |  |
| Continue expansion and development of existing reserves and capacity.   | <ul style="list-style-type: none"><li>• Operations are able to quickly and significantly reduce costs by temporarily reducing labour during periods of pricing volatility.</li></ul> <p>For further detail please refer to the Chief Executive Officer's Statement on pages 8 to 11.</p>  |  |
| Add value and customer diversity by expanding the product portfolio.  |   |  |
| Expand our asset portfolio in natural resources worldwide.  |   |  |
| <b>Health, safety, environment and community</b>  |   |  |
| <b>Context</b>  |   |  |
| By their very nature, mining operations can be hazardous. However, ENRC management is committed to achieving zero health and safety related incidents.  | <ul style="list-style-type: none"><li>• The Health, Safety, Environment and Community Committee focusing on:<ul style="list-style-type: none"><li>– Safety management and performance;</li><li>– Implementation of a new safety improvement programme; and</li><li>– Review of HSEC risks and action plans.</li></ul></li><li>• ENRC Safety Policy and Standards, and ENRC internal corporate accident investigation policy.</li><li>• HSE training programmes.</li><li>• Certified Occupational Health and Safety Management System in line with OHSAS 18001.</li><li>• DuPont safety improvement programme to develop a new safety management system.</li><li>• Kazakhstani critical safety plans.</li></ul> <p>For further details please refer to the Sustainable Development Review on pages 39 to 42, the Sustainable development Report (to be published separately) and Key</p> |  |
| There is also the potential that environmental legislation may be introduced that will impose additional costs on the business.   |   |  |
| <b>Risk</b>   |   |  |
| Health and safety incidents impacting on staff welfare, lost working time and breaches in health, safety and environmental regulation.  |   |  |
| Environmental legislation drives additional demands, including additional costs required to ensure compliance with new standards.   |   |  |
| <b>Possible impact</b>  |   |  |
| Corporate reputation, prospects for long-term growth, financial profitability, loss of life, environmental damage.  |   |  |
| <b>Associated strategic priorities</b>  |   |  |
| Commit to high standards of corporate responsibility and sustainable development.   |   |  |
| Expand our asset portfolio in natural resources worldwide.  |   |  |



## Statement of Directors' Responsibility

Each of the Directors, whose names and functions are listed on pages 48 and 49 confirm that, to the best of their knowledge:

- The Consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Parent Company financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Directors' Report and Business Review contained in pages 65 to 68 include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

For further information, or to request copies of any of the documents mentioned above, please contact:

Victoria Penrice +44 (0) 20 7389 1440  
ENRC: Company Secretary

## About ENRC

ENRC is a leading diversified natural resources group, performing integrated mining, processing, energy, logistics and marketing operations. The operations comprise: the mining and processing of chrome, manganese and iron ore; the smelting of ferroalloys; the production of iron ore concentrate and pellet; the mining and processing of bauxite for the extraction of alumina and the production of aluminium; the production of copper and cobalt; coal extraction and electricity generation; and the transportation and sales of the Group's products. The Group's production assets are largely located in the Republic of Kazakhstan; other assets, notably the Other Non-ferrous Division, are mainly located in Africa; the Group also has iron ore assets in Brazil. The Group currently sells the majority of its products to Russia, China, Japan, Western Europe and the United States. For the twelve months ended 31 December 2011, the Group had revenue of US\$7,705 million (2010: US\$6,605 million) and profit attributable to equity shareholders of the Group of US\$1,974 million (2010: US\$2,185 million). ENRC has six operating Divisions: Ferroalloys, Iron Ore, Alumina and Aluminium, Other Non-ferrous, Energy and Logistics. ENRC is a UK company with its registered office in London. ENRC's shares are quoted on the London Stock Exchange ('LSE') and the Kazakhstan Stock Exchange ('KASE'). For more information on ENRC visit the Group's website at [www.enrc.com](http://www.enrc.com)