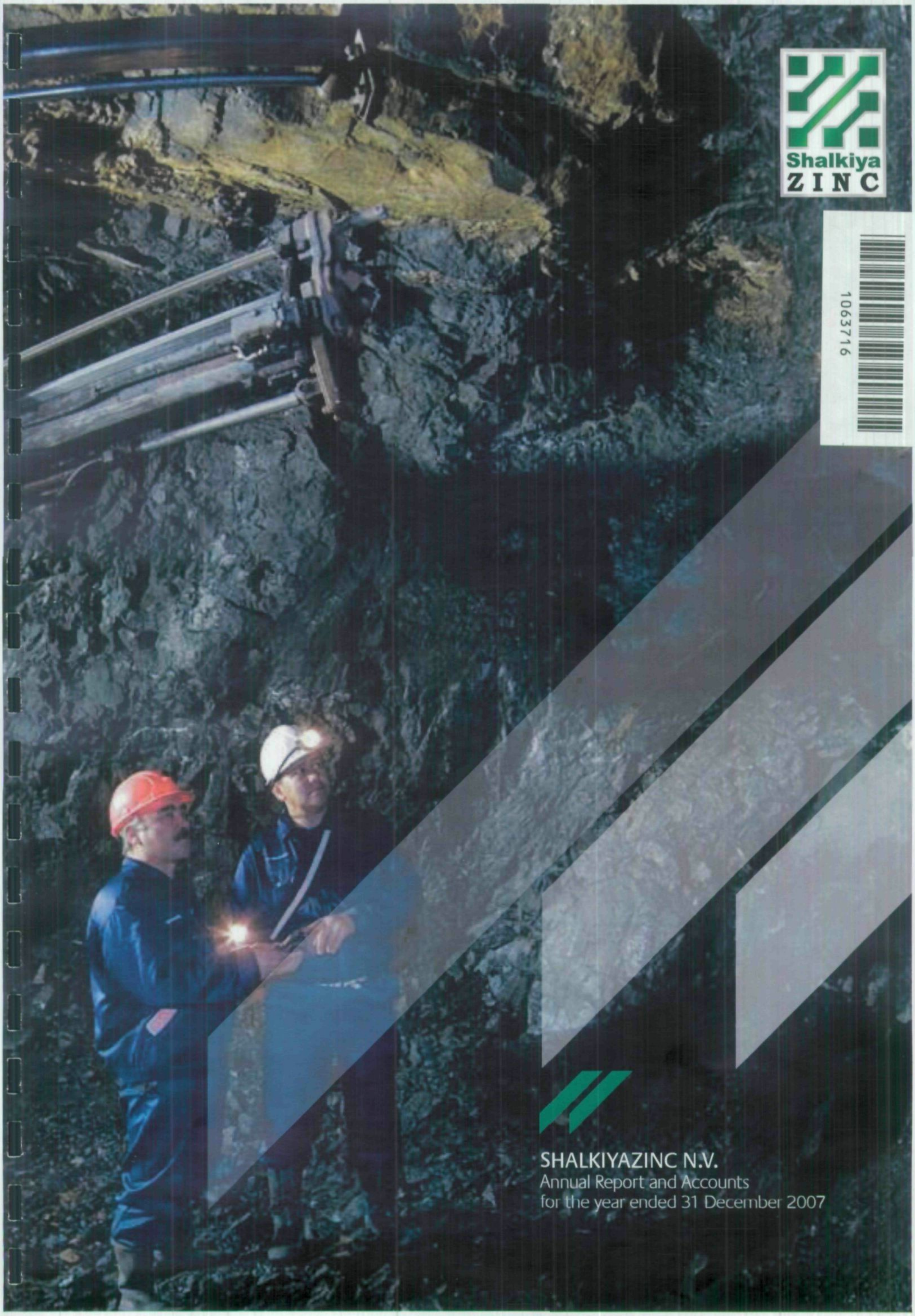


Shalkiya ZINC

SHALKIYAZINC N.V.

Annual Report and Accounts
for the year ended 31 December 2007

SHALKIYAZINC IS ONE OF THE LEADING ZINC AND LEAD MINING COMPANIES IN KAZAKHSTAN

Contents

HIGHLIGHTS

1.5mtpa

targeted mine and plant capacity in 2008 following the expansion of the Shalkiya Mine and the upgrade of the Kentau Plant

250USDm

invested in mine and its infrastructure in 1984-1990

1,722

thousand tonnes of ore has been brought to the surface since 2004

30%

of Kazakhstan's total zinc reserves at the Shalkiya Deposit as per Brook Hunt*

FINANCIAL HIGHLIGHTS

> Approximately 28% increase in revenues from concentrate sales to USD 31 million (2006: USD 24.2 million)

> Net loss down to approximately USD 3.0 million (2006: net profit USD 8 million) mainly due to the reduction in the value of deferred taxes, lower zinc concentrate prices and higher cash operating costs

> Below inflation 7% increase in the cash operating costs to USD 30.1 per tonne of ore processed

OPERATIONAL HIGHLIGHTS

> Ore mined up 88% to 738 thousand tonnes (2006: 392 thousand tonnes)

> Ore processed up 51% to 645 thousand tonnes (2006: 427 thousand tonnes)

> Sales of zinc concentrate increased by 36% from 2006 levels

> Grade of zinc concentrate remained unchanged from 2006 levels at 45%

> The Company, with SRK, has undertaken a production performance review in an effort to identify operational improvements

The Company's principal operations are located in Southern Kazakhstan and include the following main assets:

> the Shalkiya Mine: an underground mine in the *Kyzylorda region*;

> the Kentau Plant: a zinc-lead ore processing plant near the town of Kentau in the Southern Kazakhstan region, 165 kilometres south-east of the Shalkiya Mine;

> the Talap Deposit: a zinc-lead ore deposit 30 kilometres south-west of the Shalkiya Mine.

The Company is located in proximity to the major zinc consuming markets of Asia, China and Russia.

* The Brook Hunt report commissioned by the Company in November 2006.

BUSINESS OVERVIEW

PILLARS OF SUCCESS

> Size and long life of the asset base
> Developed infrastructure
> Management team with a proven track record
> Strong positioning towards further expansion

Deposits

Shalkiya Deposit

The largest known zinc deposit in Kazakhstan, representing approximately 30% of the country's total zinc reserves as per Brook Hunt, with 202 million tonnes of Proven and Probable Reserves containing 6.6 million tonnes of zinc. The Company acquired the deposit in 2001 and conducted the subsurface use contract in 2002 for a period of 45 years.

Talap Deposit

The exploration programme has been completed. Total mineral resources estimated amount to 24.9 million tonnes of zinc-lead ore.

Operations

Shalkiya Mine

The Shalkiya Mine was initially planned in the 1980s and later abandoned after the collapse of the Soviet Union. It was acquired by the Company in 2001 and recommenced production in March 2004. The current design production capacity of the Mine is 1.5 million tonnes of ore per annum. It is currently being upgraded to achieve production capacity of 4mtpa by 2011.

Kentau Plant

Originally built in 1963, the Kentau Plant was one of the largest ore processing plants in the former Soviet Union. The Company purchased the Plant in 2003 to process ore from the Shalkiya Mine. 28,225 tonnes of zinc concentrate have been produced since 2004. The Company has undertaken a vast renovation and re-equipment of the Plant in order to increase its processing capacity to 1.5 million tonnes of ore per annum and improve the recovery rate of zinc in concentrate to 64%.

New Processing Plant

The New Processing Plant at the Shalkiya site is scheduled to be completed by 2011 with 4 million tonnes of ore per annum production capacity and a 75% zinc recovery rate in the concentrate. The Company is working with SRK Consulting, the independent project manager, on the preparation for the construction of the Plant and the procurement of the equipment. The completion of the project will lead to a significant reduction in transportation costs and improvement in the quality of the concentrates.

DEVELOPMENT TIMELINE

1963/64

Deposit discovered.
Exploration begins.

1984/94

Construction of 3.0mtpa ore mine. Approximately USD 250 million invested into constructing shafts and installing necessary infrastructure.

1994/96

Kazakhstan's regulatory authorities approved the reserves. Closing of operations and abandoning of the mine due to the economic crisis.

2001/04

Company acquired mine assets at a bankruptcy auction financed by BankTuranAlem loan (2001). Acquisition of the Kentau Plant. USD 10 million spent on rehabilitating the mine and processing facilities. Mining recommenced in February 2004. Acquisition of the Talap Deposit.

2005/06

Scoping Study by Independent Engineers (Australia) Pty Ltd. (IEA) to determine strategy for developing the mine. Outokumpu completes pre-engineering study of a new 3.0mtpa processing plant. AMC in process of restating reserves in accordance with the JORC Code. Exploration programme of the Talap Deposit completed.

2007/08

Stage I of the development and expansion project.
Production to reach 1.5mtpa.

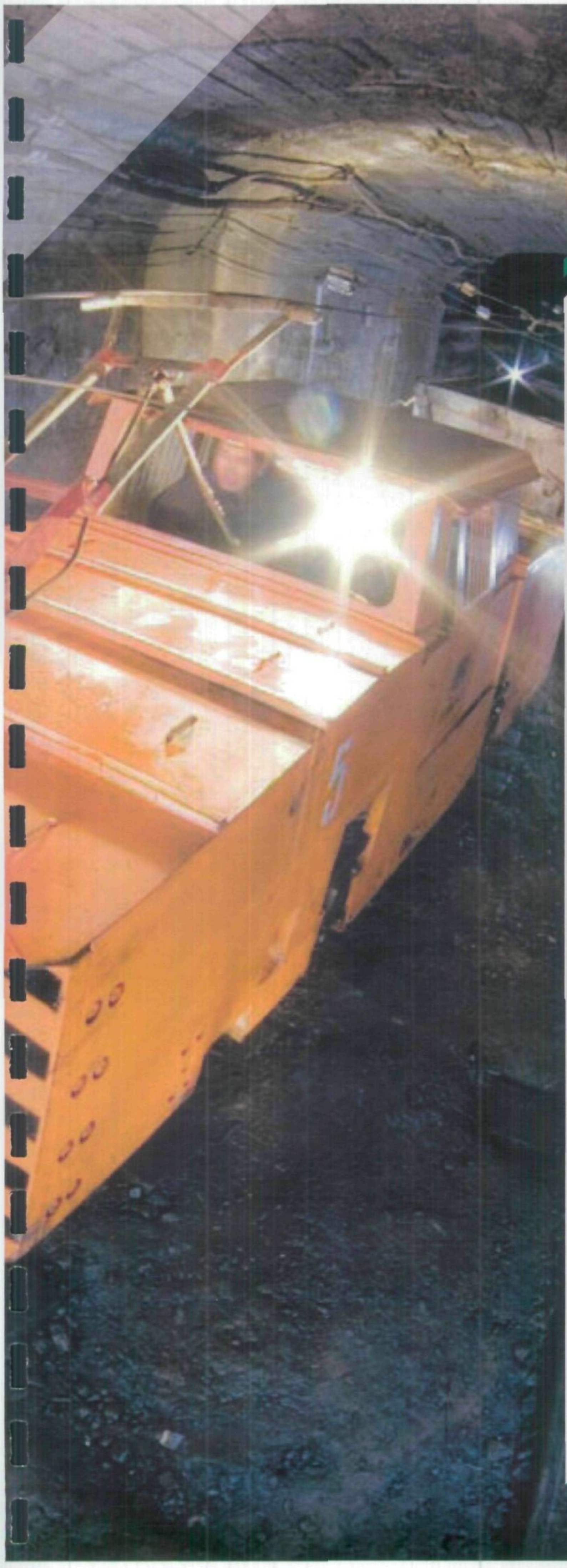
2009/10

Stage II of the development and expansion project.
Plan to construct the New Plant.

2011

Targeted production to reach 4mtpa.

OUR VISION AND VALUES



ShalkiyaZinc's vision is to become one of the leading mining businesses in the region of Kazakhstan, Russia and Central Asia.

We believe that in order to reach this objective, we must grow our business and establish a vertically integrated company, including mine (ore mining), processing plant (ore processing) and zinc smelter (production of zinc metal), at the same time enhancing our reputation as a progressive, ethical, and respected employer, manufacturer and marketer of our products.

The Company has solid set values and we use these to guide us in our day-to-day decisions and actions. These values have provided a foundation for the way we interact with customers, suppliers, business partners, co-workers, shareholders and the communities in which we operate.

Our values are:

Health and Safety of Operations
ShalkiyaZinc regards health and safety as the key aspect of its operational activities. The health and safety objective of the Company is to ensure that no one will be harmed in any way at any of ShalkiyaZinc's operations.

Operational Excellence
We strive to be the best in all that we do, in order to become one of the leading vertically-integrated mining businesses in Kazakhstan and Central Asia, bringing value to our shareholders, employees, communities and country in which we operate.

People Development
We strongly believe that the expansion of the Company is not possible without development of its people. ShalkiyaZinc is investing and will always invest in professional training programmes for its employees. As a dynamic company dedicated to the development of our employees, we provide the support, training and guidance to make sure ShalkiyaZinc people learn, grow and succeed.

Protection of Environment
We belong to Kazakhstan and we strive to protect its environment from any harm which might be caused by the production activity of the Company.

Community Development
Our key objective is to use the presence of the mine and plant to generate long-term sustainable opportunities for people in the local communities.

CHIEF EXECUTIVE'S STATEMENT

MARAT SARKYTBAYEV
Chairman of the Management Board

The period since the start of our last financial year has been one of very significant development for ShalkiyaZinc with an almost twofold increase in the volume of mined ore. The Company restated its reserves and resources in accordance with the JORC standard and revised its production plan, bringing the production target to 4 million tonnes of ore per annum in 2011. A number of key appointments helped to strengthen our executive team and to improve corporate governance.

We finished the year with mixed results, with significant production underperformance against the Company's own targets. On the production development side, the Company despite having upgraded and re-equipped the Shalkiya Mine and the associated Kentau Processing Plant, has not achieved the Stage I expansion plan target of bringing the production capacity to 1.5 million tonnes. The volume of processed ore has increased by 51% from the previous year. However this result is disappointingly short of the 2007 production growth target. The lower than planned production results have had an impact on our financial performance during the year 2007.

Financial Summary

Our revenue grew to approximately USD 31 million in 2007 from USD 24.2 million in 2006, representing an increase of approximately 28%, a combination of substantial increases in production and sales over the previous year. While this is an impressive increase by any normal standards, it is unfortunately well below budget for the year, primarily due to the predicted shortfall in production and sales by some 20-30%.

Partly due to the commissioning problems encountered in the rehabilitation of the Kentau Plant, cash operating costs per tonne of ore processed have increased by some 7% from USD 27/t to USD 30.1/t, slightly below inflation. While mining and concentrating unit costs were themselves contained, despite the shortfalls in our targeted production, there was a significant increase in ore transportation costs. In the past the Company has used rail transport to transfer mined ore to Kentau. However, for safety reasons the Company is currently using road transport. This change is temporary as part of the railway is being reconstructed. We expect to recommence transportation by rail in May 2008. As a consequence, the increased cost of ore transportation during 2007, by 116%, is regarded as being of a temporary nature.

General and administrative costs (G&A) have increased by approximately 115% from USD 3.2 million to USD 6.8 million. This increase was across the board in G&A expenses, as we endeavour to strengthen our executive management to reflect the additional tasks and duties involved in tripling the size of the Company. Some of the increases are deemed to be of a temporary nature, relating to additional business travel and consulting services connected with our expansion activities. The Company has also hired additional, highly qualified specialists in project management for the construction of the new ore processing plant at Shalkiya, designed to increase production further to 4 million tonnes of ore per annum.

Distribution costs relate to the transportation of zinc or lead concentrate from Kentau ore processing plant to the client's border including packaging costs. Distribution costs increased by 36%, primarily related to a 36% increase in sales of zinc concentrate.

Operations

During 2007 we continued focusing on the ambitious production development programme. The Stage I expansion, though not completed, involved further upgrading of the Shalkiya Mine and the reconstruction and re-equipment of the Kentau Plant to bring the production capacity to 1.5mtpa. The completion of the reconstruction of the Kentau Plant was delayed by unexpected additional preparation work on the Plant's production floor, late and often incomplete arrival of equipment and further interruptions and below par performance caused by instances of faulty equipment being delivered. This delay significantly affected the performance of the Plant, resulting in both a shortfall in the volume of processed ore and the lower than expected zinc and lead grades in the concentrate.

An internal review undertaken by the Company established that insufficient planning, quality control and scheduling processes being put in place by on-site management also played a negative role in the overall production performance of the Kentau Processing Plant.

In order to improve the Company's on-site project management capabilities and to avoid a repeat of similar problems in the future, the Company has appointed Tony Thornton of SRK Consulting (UK) Ltd as Acting Chief Operating Officer of the Company. We believe that Tony Thornton, a Chartered Mining Engineer with 30 years of mining experience in Africa, the United States and Great Britain, is ideally situated to address the issues facing Kentau Plant in the short term in order to achieve planned production levels.

The Company has also strengthened its on-site management team at the Kentau Plant by appointing Baurzhan Kozhabekov as Director of the Plant. Mr. Kozhabekov had previously held key management positions at Kazakhmys Plc operations in Kazakhstan, including Director of the Nikolayev Processing Plant and the Belousov Processing Plant and Chief Engineer of the Balkhash Processing Plant.

The Company is undergoing a strategic review of its business plan, assisted by SRK, its appointed advisor on project management, in order to limit the effects of problems faced during the Stage I Expansion project. Review of the current business plan is near completion, and recommendations will be made to focus primarily on the containment of capital costs and the Company's priority to become a low cost metal producer.

The Company then hopes to complete a "bankable" Feasibility Study and, in parallel, bring on board the financing required to implement the new Business Plan. The Company plans further reviews both on achieving a sustainable level of performance at 1.5mtpa from our Stage I expansion and achieving the conditions necessary for implementing our Stage II Expansion to 4mtpa in 2011 which involves construction of the New Processing Plant and the second phase of the Shalkiya Mine expansion.

Corporate Development

In 2007 ShalkiyaZinc continued to make progress in improving its corporate governance, aiming to bring structures and practices more closely into line with the requirements of both the Dutch and UK Corporate Governance codes. The Company has commissioned a study by PricewaterhouseCoopers to identify ways of strengthening internal risk and management information systems.

Following the recommendations of PricewaterhouseCoopers the Company will recommend its shareholders to approve at the Annual General Meeting a new stronger Board structure. At present ShalkiyaZinc has a two-tier structure which includes four governing bodies – Supervisory Board and Executive Board in both holding (NV) and operational (LLP) company levels. Subject to approval by shareholders, they will be replaced by a simpler structure, which will consist of the Unitary Board at the NV level and the combined operating Board of Directors at the LLP level.

The Company's external communications and investor relations have been improved by the appointment of Olga Alesenko as Head of Investor Relations, who has brought to the Company a great deal of knowledge and experience in corporate communications and international best practice.

Markets

The ease with which a significant number of existing zinc miners were able to rapidly expand production to meet the growing demand of developing markets led to a small surplus of refined zinc production in 2007 by some 15,000 tonnes. As a result zinc prices continued to fall steadily throughout 2007 with an estimated average of USD 3,240 a tonne, 1% lower than in 2006.

However, demand growth in annual volume terms now appears to have stepped up to new levels, accompanied by a significant rise in both the cost of production and in the cost of expansion capital. To meet this accelerating demand, producers will now have to move increasingly from low cost brown field expansions to much higher cost green field expansions. This will also take longer to implement so that even as demand growth continues apace, production growth is likely to slow with the strong likelihood that consumption growth will again outpace supply growth over the longer term.

The demand for our concentrates will continue to be strong for the foreseeable future, given ShalkiyaZinc's strategic geographical location and good transport links to Russia, China and Uzbekistan. China will remain a major driving force this year, despite the recent power cuts resulting in the interruption of production by metallurgical plants in some areas.

Although the international "credit crunch" has had its impact on the credit market of Kazakhstan, the Company has not been significantly affected and continues to have access to credit facilities. Overall, we believe that the issue facing the economy of Kazakhstan is not systemic; rather it is how to bridge the funding gap given closed international markets.

Outlook

We look forward to 2008 which will become another important year for ShalkiyaZinc operation. After the initial teething problems following the upgrade of the Kentau Plant we will seek to ensure a 2008 annual production of 1 million tonnes while achieving the full capacity of the plant at 1.5mtpa, helped by a strengthened on-site management team.

The Company, with the help of external engineering consultants, is currently reviewing Stage II expansion to 4mtpa striving to decrease the capital and operational costs of the project, by including comparative costing of Chinese- or Russian-sourced equipment. More information should be available towards the middle of the year 2008.

Until this review is finalized we will not change our plans to achieve a production rate of 4 million tonnes in 2011. The implementation of this project will also enable us to produce improved grades in zinc and lead concentrates as well as improved recoveries of those metals into concentrate, substantially improving the Company's projected revenue stream.

Our long-term strategy is to become a vertically-integrated mining and metal business and to become one of the leading zinc producers in the region.

I would like to take this opportunity to thank everyone who has worked hard over the past year to ensure the growth of the Company and its progress towards its ambitious operational and financial targets. And I would like to thank you, our shareholders, for your continued support.

Marat Sarkytbayev
Chairman of the Management Board
11 June 2008

REPORT OF THE SUPERVISORY BOARD

Financial Statements
It is our pleasure to present the 2007 consolidated financial statements of ShalkiyaZinc N.V. as prepared by the current Management Board. The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been audited by the external auditors, Deloitte Accountants B.V., and discussed with them on the basis of their report. The unqualified auditor's report is included on page 67. We approved the financial statements at our meeting on 11 June 2008 and recommend that you adopt them.

We concur with the proposal of the Management Board that there be no distributions of earnings with respect to the current reporting period.

Corporate Governance
In consultation with the Management Board we intend to submit a revised corporate structure and corporate governance policies, with a more limited number of deviations from the best practice provisions of the Dutch Corporate Governance Code (the "Code"), for discussion during the Company's first Annual General Meeting in June 2008.

The number of deviations has not changed materially from those presented in the original prospectus of the Company at the time of its listing of GDRs on the LSE. In addition we propose to change the style of Corporate Governance by moving from a two tier Board as envisaged at the time of the prospectus to a single Unitary Board structure. The main points of ShalkiyaZinc's existing corporate governance structure as currently constituted are set out in a separate section of this Annual Report. The new corporate governance structure, proposed to reflect recommendations made by PricewaterhouseCoopers in their report on Corporate Governance, commissioned by the Company, will be submitted to the Annual General Meeting in a separate agenda item, along with further policies on Corporate Governance.

This report on the performance and work of the Supervisory Board in the past year and in the period up to the publication of this Annual Report has been prepared in accordance with the provisions of the Code.

Supervision
The Supervisory Board met on five occasions during the year under review. None of these meetings were prearranged, but were called mainly on an ad hoc basis to discuss progress on the formation of the Company's Corporate Governance structure with the Management Board and/or to review interim and final financial statements to be released to shareholders and the general public.

All of the Supervisory Board meetings constituted a quorum of at least two members with the Chairman of the Supervisory Board being in attendance at all meetings. As part of the Supervisory Board's supervision responsibilities the operational and financial objectives of the Company were discussed at each of these meetings.

Safety, health and environmental issues were among the topics discussed during each of these meetings. Members of the Supervisory Board also visited ShalkiyaZinc's operating facilities at Shalkiya and Kentau on several occasions during the year, on which occasions developments of the Stage I and Stage II expansions of the Company's operations, to 1.5mtpa and 4mtpa respectively, have been discussed with the responsible managers. At separate meetings with the relevant Engineering and Financial consultants, currently being employed by the Company, the current business plan was also discussed.

Other topics discussed regularly included strategy, budget, financing of the Company, interest rate and foreign currency policy and internal and external quarterly production and half-year and annual financial reports. Particular attention was given in 2007 to the increased need for continuance of the Revolving

Credit Facility provided by BankTuranAlem until such time as the Company is in a position to raise separate Project Finance from the external markets to progress its Stage II Expansion plans. The Supervisory Board also considered the progress being made on these ongoing projects and the launch of any new projects.

The external auditors and the Supervisory Board held meetings regarding the half-year and annual results. The interim report and auditor's report issued by the external auditors were also discussed during those meetings.

Minutes of all meetings have also been considered and discussed in subsequent meetings of the Supervisory Board.

In addition to reviewing the ICT policy, the Supervisory Board discussed Management Development and Succession Planning. Furthermore, the Supervisory Board and Management Board discussed the risks associated with the Company's operations as well as the results of the Management Board's review of the design and operation of the Company's risk management and control systems.

At a meeting not attended by Executive Board members, the Supervisory Board discussed the proposals of the Remuneration Committee, its own performance and that of the Management Board, and the performance of individual members of both bodies. The Supervisory Board also considered its required profile, composition and competencies.

Core Committees

During 2007 the Supervisory Board also constituted the Audit Committee and the Nominations Committee due to the limited number of Non-Executives available to perform these tasks separately.

Audit Committee

The Audit Committee met on the same four occasions as the Supervisory Board in 2007 and on one separate occasion with only the presence of the External Auditor. A core task of the Audit Committee was an extensive review of the financial reports and the budget before their consideration by the full Supervisory Board. The Committee also discussed the financing structure, analyses of the financial ratios, changes to the Revolving Credit Facility, pension issues, insurance, taxation, reports on the risks associated with the Company's operational, commercial, financial and other activities and management reporting. The Committee also discussed the scope of the audit, recommendations in the management letters and the current and future relationship with the external auditors.

In conformance with the Code one meeting has been held with the external auditor without the presence of the Management Board members. Finally, the Audit Committee assessed its own performance throughout the year, its current regulations and future conformity. During 2007, Mr. Zhaksylyk Zharimbetov acted as financial expert and Chairman of the Audit Committee within the meaning of the relevant best practice provisions of the Code.

Nominations Committee

The Nominations Committee effectively met on three occasions, one post financial year end, when the profile and composition of both the Management and Supervisory Boards were discussed as well as the Company's Corporate Governance status. Proposals were made to change the Corporate Structure to that of a Unitary Board structure within the meaning of the Code and to reconstitute the various governance committees to that end. These proposals are made in the interest of improving communications between the holding company ShalkiyaZinc N.V. in the Netherlands and its operating subsidiary LLP Shalkiya Zinc Ltd in Kazakhstan and further improving on the current levels of Corporate Governance.

It is proposed that the Unitary Board will comprise:
Graham McCartney (independent Non-Executive Director);
Zhaksylyk Zharimbetov (independent Non-Executive Director);
Marat Sarkytbayev (Executive Director); Henk van Wijlen (Executive Director).

In addition, it is intended that additional (independent) Non-Executive Directors will be proposed for election to the Unitary Board at the 2008 AGM. The LLP board will also be reconstituted in a unitary style from within its existing executive membership, consisting primarily of the CEO, COO and CFO, which positions are all currently under review.

Going forward, the N.V. Unitary Board will fulfil a supervisory function for the Group, with the board of the local operating subsidiary performing an executive function.

Until such time as these arrangements have been accepted and approved by the General Meeting, the Supervisory and Management Boards of the N.V. will continue to meet and act on a joint basis, as has been the case for most of the previous year.

Personnel Information

Mr. G. McCartney and Mr. Z. Zharimbetov were appointed as members of the Supervisory Board during the formation of the Company in December 2006. In accordance with the above proposals the terms of office of Mr. G. McCartney and Mr. Z. Zharimbetov will expire at the 2008 Annual General Meeting. The Board is grateful that Mr. G. McCartney and Mr. Z. Zharimbetov have expressed their willingness to serve another term of three years on the Unitary Board of the Company. Mr. G. McCartney and Mr. Z. Zharimbetov will, therefore, be proposed for reappointment during the 2008 Annual General Meeting.

As further explained above, the terms of all members of the existing Management Board will also expire at the 2008 Annual General Meeting. The Board is grateful that Mr. M. Sarkytbayev and Mr. H. van Wijlen have also expressed their willingness to serve another term of three years on the new Unitary Board of the Company. Mr. M. Sarkytbayev and Mr. H. van Wijlen will, therefore, be proposed for reappointment during the next Annual General Meeting.

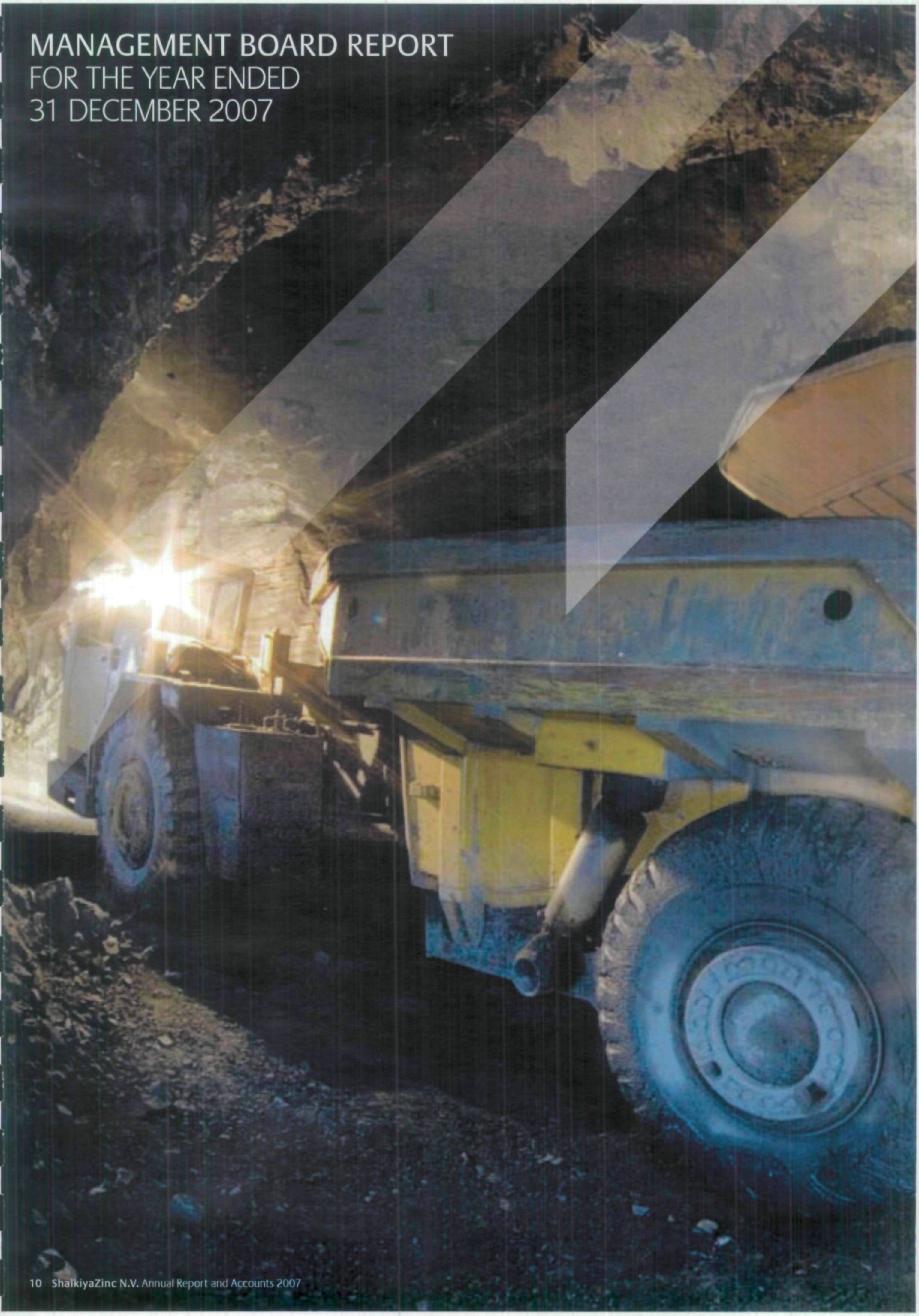
To ensure the correct balance between executive, non-executive and independent members of the new Unitary Board, the Supervisory Board is considering appointing a further non-executive member to the Unitary Board, details of whom will be published in due course.

Finally, we would like to express our sincere thanks to the Management Board and all the Company's employees for their efforts in 2007 and for the corresponding improvement in our results.

The Supervisory Board

G. F. McCartney (Chairman)
Z. Zharimbetov (Member)
R. Rizoyev (Member)
11 June 2008

MANAGEMENT BOARD REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007



The Management Board Directors are pleased to present their report and the consolidated financial statements for the year ended 31 December 2007.

OPERATIONS

Shalkiya Mine

The Shalkiya lead and zinc deposit was discovered in 1963. After a number of geological tests, followed by exploration and development activities, the construction of the Shalkiya Mine commenced in 1984. The infrastructure installed in the 1980s was aimed at servicing mining operations with a production capacity of 3.0 million tonnes of ore per annum. However, the development of the Shalkiya Mine had not been fully completed before it was abandoned in 1994 due to the recession in Kazakhstan following the collapse of the USSR.

The Mine was acquired by the Company in 2001 and recommenced production in March 2004. Since then the Shalkiya Mine production has increased annually.

In April 2007 the Company revised the Shalkiya Mine production target to 4.0 million tonnes of zinc-lead ore per annum by 2011. This revision came as a result of reengineering the Service and Hoist shafts with modern winding equipment and is backed up by a report prepared by AMC Consultants (UK) Ltd that confirmed the reserves of zinc-lead ore in the Shalkiya Deposit under the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

Stage I Expansion – Increasing Production Capacity to 1.5mtpa

One of the main targets for ShalkiyaZinc in 2007 was to increase the production capacity of the Shalkiya Mine to 1.5 million tonnes of ore per annum.

Planning and development for mining and processing 1.5 million tonnes of ore was finalized during the year and implementation commenced. Significant repair, refitting and rehabilitation work on the Mine was undertaken. These included major repairs to hoisting and crushing equipment alongside in-mine transportation facilities. Three new ore passes were commissioned, substantially increasing the capacity of in-mine transport. New drilling, loading and haulage equipment was also procured.

Production of ore at the Shalkiya Mine reached 738,000 tonnes. The production capacity target of the Shalkiya Mine Stage I Expansion of 1.5 million tonnes of ore per annum will be reached in 2008.

Stage II Expansion – Preparation for the Increase in Production Capacity to 4mtpa

The planning and development programme to increase the production capacity of the Shalkiya Mine from 1.5 to 4 million tonnes of ore per annum in 2011 is currently being prepared.

As part of this preparation a new hoisting shaft was constructed in 2007, and a new service shaft is currently under construction. Hoisting and automation equipment has already been ordered for these shafts. The operational buildings and ground facilities of the Shalkiya Mine have also been substantially refurbished.

LOCATION AND INFRASTRUCTURE

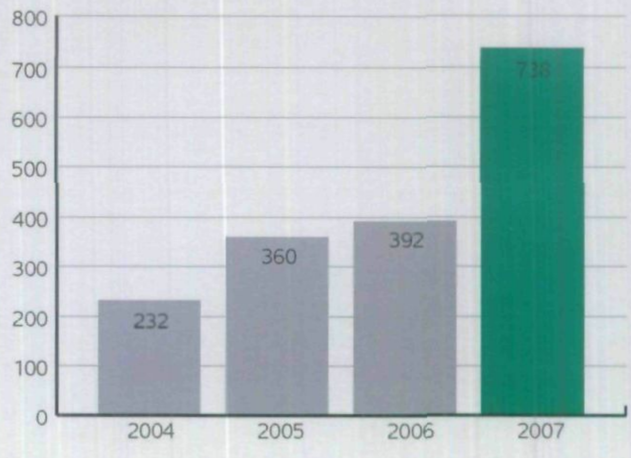
The Shalkiya Mine is located in the Zhanakorgan District, 17 kilometres from the district centre, Zhanakorgan of the Kyzylorda region of the Republic of Kazakhstan. The total population of the Zhanakorgan district is approximately 68,000, with 5,000 people living in the Shalkiya village, 4 kilometres from the Shalkiya Mine.

The Shalkiya Mine benefits from good access to infrastructure, including both rail and road connections to Zhanakorgan, the Kentau Processing Plant and the national main rail lines of Kazakhstan, offering good access to the surrounding markets including Russia, Uzbekistan and China.

Two 220kV HT lines connect the Mine with the main Kazakh power grid via a 220kW to 10kW/6kW substation with two 40MVA transformers. The Mine is well supplied with water from local water boreholes supplementing existing mine water drainage.

Historic Production

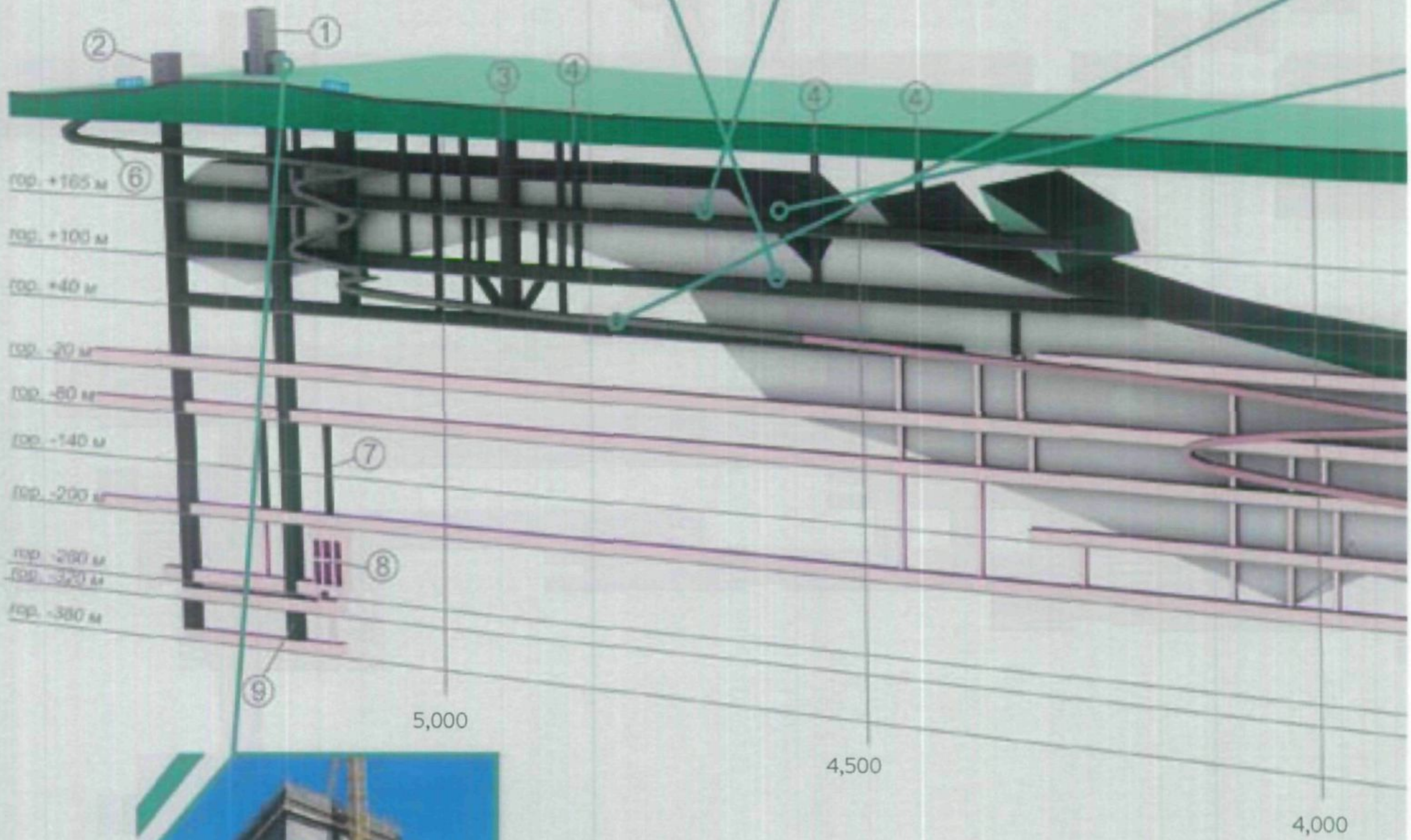
Ore mined in thousands of tonnes



MANAGEMENT BOARD REPORT
SHALKIYA MINE SCHEMATIC

Ore lading by LHD Toro-007 to dumptrucks MoAz

Drilling of blasting holes in drivage face by drilling Jumbo Monomatik

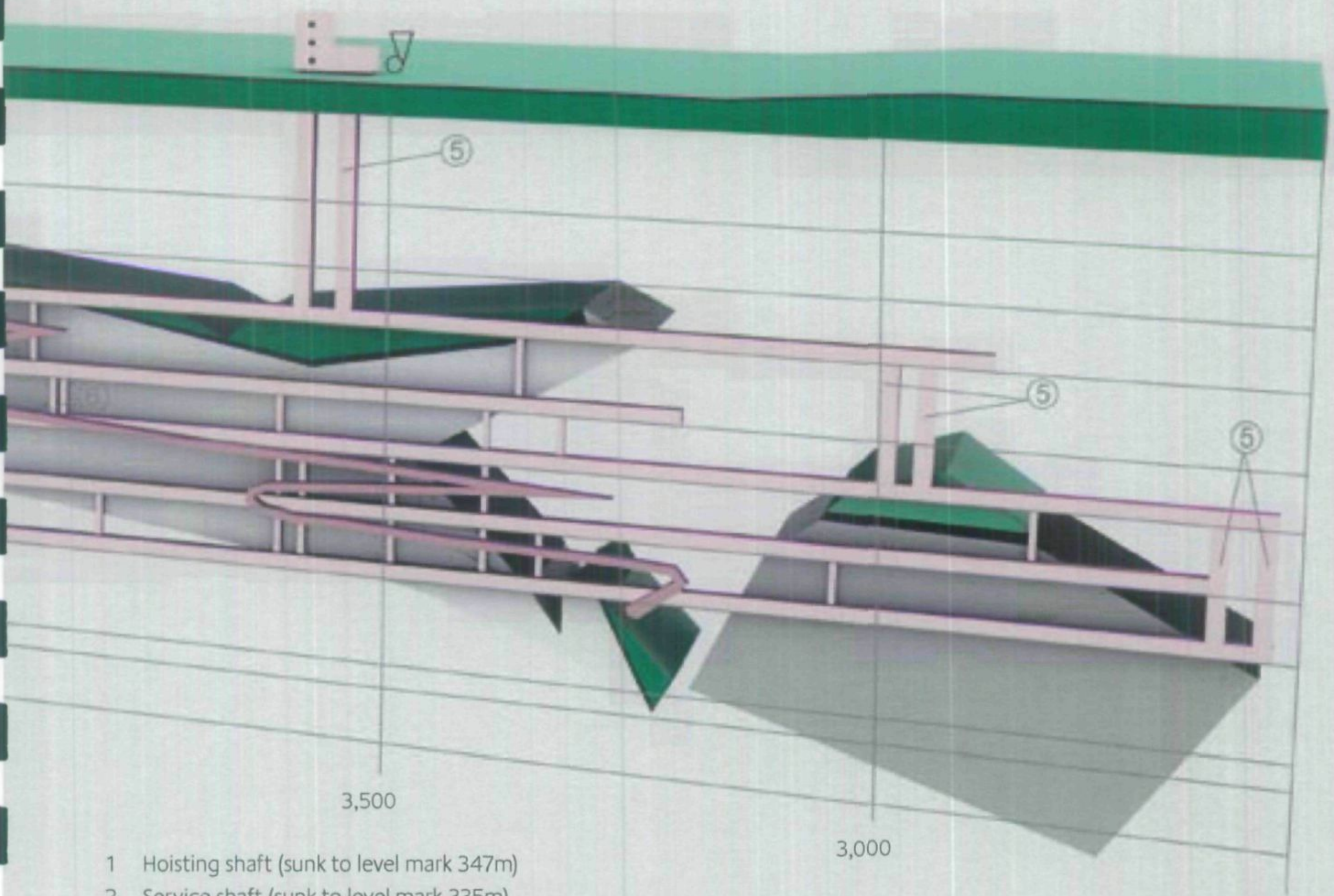


Legend

- Planned workings
- Existing workings
- Ore C_1
- Ore C_2
- Surface boundary
- Air heating building
- Ventilator unit

Drilling by drilling Jumbo Boomer 104


The process of loading and haulage of ore to ore pass by LHD Toro-007



1 Hoisting shaft (sunk to level mark 347m)
2 Service shaft (sunk to level mark 335m)
3 Production shaft (currently in operation)
4 Ventilation raises Nos 4, 5, 6 (currently in operation)
5 Main ventilation vertical workings (driven)
6 Motor transport decline (driven up to level mark +40)
7 Ore pass
8 Ore crushing level
9 Batching site

MANAGEMENT BOARD REPORT
OPERATIONS
STAGE I EXPANSION – KENTAU PLANT

The Kentau Plant was originally built in 1963 for processing zinc-lead ore produced at the nearby Mirgalim Deposit. With a processing capacity of 4mtpa the Kentau Plant was one of the largest zinc-lead processing plants in the former Soviet Union. The Company acquired the Kentau Plant in 2003 with the intention of processing ore from the Shalkiya Mine. Following years of neglect up to its purchase by ShalkiyaZinc, much of the Plant's equipment was not operational and unfit to produce high grade concentrates.

After initial rehabilitation of the plant, production of zinc and lead concentrates resumed in 2004 through the application of traditional flotation technology. As part of our expansion programme two full flotation lines were refurbished in 2007, including the installation of new flotation cells and the rehabilitation of the accompanying ball mill circuits and classification equipment. Processing at the Kentau Plant will be maintained until the construction of a new processing plant at the Shalkiya Mine site is completed.

OPERATIONAL MANAGEMENT

Production of ore at the Shalkiya Mine and processing at the Kentau Plant increased significantly in 2007 but failed to achieve our Stage I Expansion targeted capacity of 1.5 million tonnes of ore per annum and improvements in the recovery rate of zinc in concentrate to 64%.

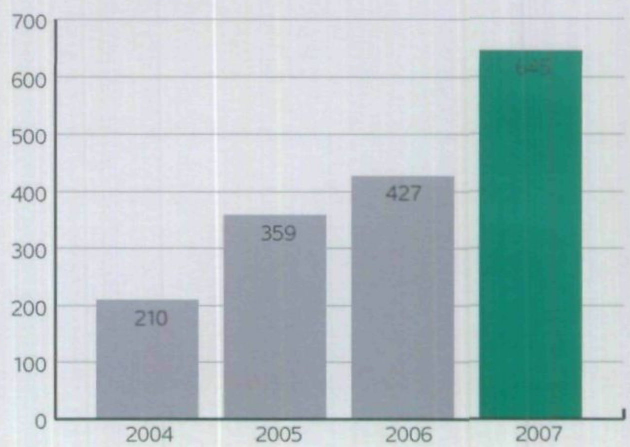
Following an internal review undertaken by the Supervisory Board and management, failure to achieve the production targets was identified as being primarily due to poor planning, operational management and supervision failures both in the implementation of the rehabilitation of the mine and plant and in the operational processes. To address these issues and to improve both production and profitability the Company appointed Tony Thornton of SRK Consulting (UK) Ltd as its Acting Chief Operating Officer at the end of February 2008. Mr. Thornton will have fully delegated powers of authority with responsibility for both the Shalkiya Mine and the Kentau Processing Plant. In addition to this Board level appointment, Baurzhan Kozhabekov was appointed as Director at the Kentau Processing Plant in March 2008. Mr. Kozhabekov is an experienced mining engineer and a former senior manager at Kazakhmys plc.

Shortcomings in the infrastructure, plant and equipment, and production processes have been identified and a strategy has already been prepared to achieve the production target of 1.5 million tonnes per year capacity during 2008.

This will include additional refurbishment and reengineering of the Plant through the repair and bringing back online of a further two ball mills, with the majority of the Plant processes automated to improve operational efficiency, minimize plant downtime and reduce processing costs through a reduction in power and reagent usage.

Work at the mine is focused on improved operational practices and standards to accelerate underground development work.

Ore processed in thousands of tonnes



MANAGEMENT BOARD REPORT
OPERATIONS
STAGE II EXPANSION – NEW PROCESSING PLANT

Construction of the New Processing Plant with a production capacity of 4 million tonnes of ore per annum is one of the key elements of the Stage II development and expansion strategy of ShalkiyaZinc. The New Plant is planned to be built at the site of the Shalkiya Mine.

In 2007 Outotec (Finland) completed a basic engineering study which included production procedures and parameters for a zinc metal recovery rate at 75%. Based on this engineering study, Mekhanobr Engineering (Russia) designed the main technical specifications, including the configuration of buildings and production facilities and an estimate of capital and operating expenditure.

The commissioning of the plant, now scheduled for 2011, will primarily eliminate ore transportation costs, which represent 25% of overall operational costs. The projected recovery rate of zinc in concentrate is also expected to increase to 75%, significantly improving profitability.

Current planning allows for construction to be overseen by SRK Consulting (UK) Ltd, the independent project manager, appointed to supervise, monitor and provide overall project management.

The Company has also appointed Barclays Capital as a financial adviser to arrange senior debt financing to fund construction of the New Plant and expansion of the Shalkiya Mine.

As part of our development plan the Company has already placed orders with Outotec for the manufacturing and delivery to site of some of the key equipment for the New Plant, including long lead items such as the three ball mills which will be used at the first stage of ore processing. The Company is currently negotiating with various producers for the procurement of the remaining equipment and with construction companies for the installation of this equipment.

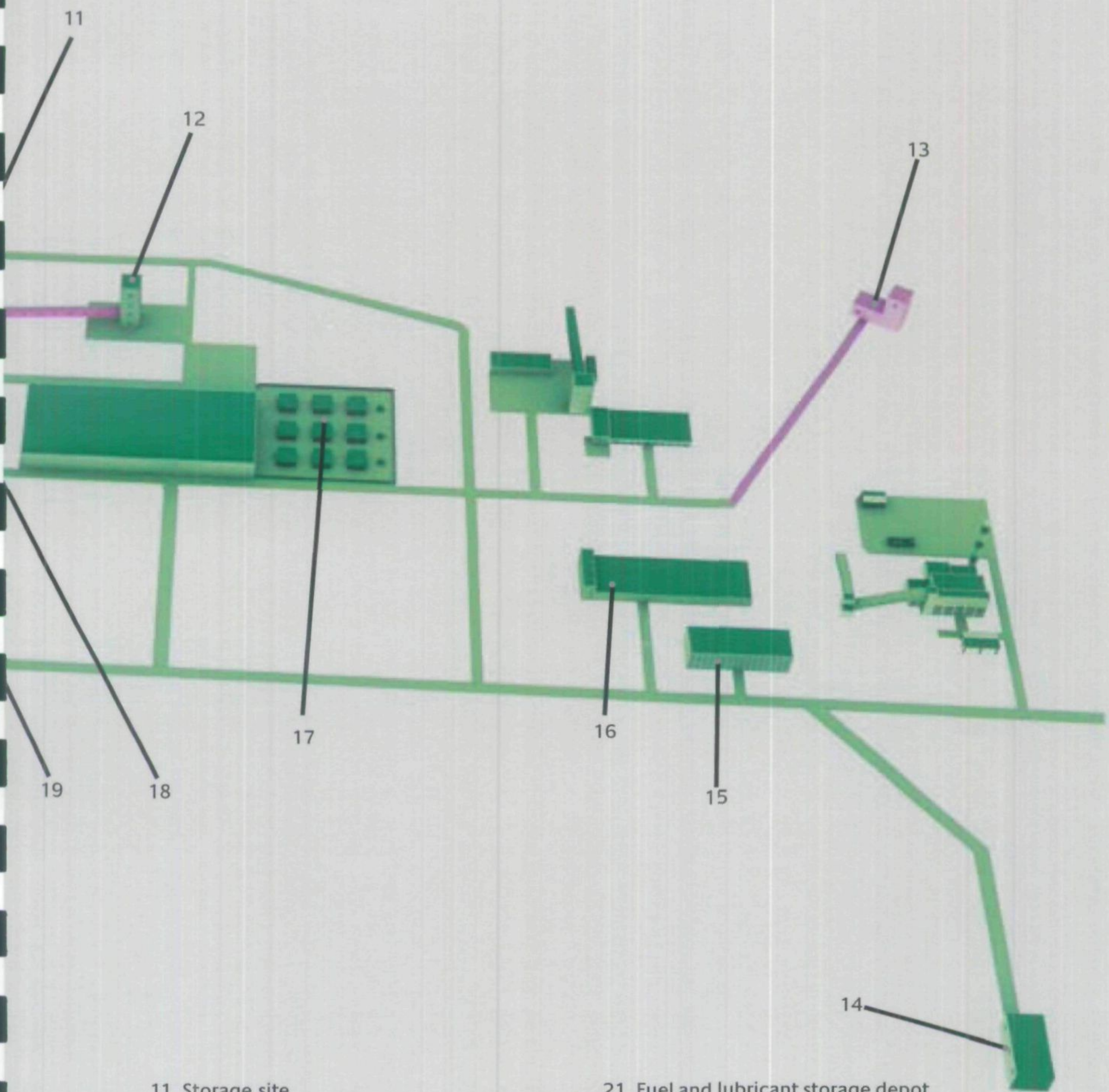
Benefits

- Proximity to the Shalkiya Mine, allowing to exclude ore transportation costs
- Recovery to reach 75% of zinc from ore
- Zinc concentrate to contain at least 52% of metal
- Recovery to reach 50% of lead from ore
- Lead concentrate to contain at least 43% of metal

MANAGEMENT BOARD REPORT
OPERATIONS
STAGE II EXPANSION – NEW PROCESSING PLANT

Existing workings
Planned workings

1 Secondary crushing site.
2 Primary crushing site
3 Pipe and cable raise
4 Storage hopper
5 Ventilation raise No 5
6 Production shaft
7 Ventilation raise No 4
8 Compressor building
9 Ventilation raise No 6 building
10 Conveyor gallery



11 Storage site
12 Hoisting shaft head gear
13 Main ventilator unit building
14 Checkpoint
15 Administrative building
16 Engineers' and technicians' dormitory
17 Substation
18 Service shaft head gear
19 Motor transport decline ingress
20 Administrative and residential building
21 Fuel and lubricant storage depot
22 Thickener
23 Commodity product storage building
24 Processing plant
25 Reagents store
26 Secondary crusher building
27 Bins
28 Tailings pipeline
29 Tailings dam

There are three deposits situated in the late Palaeozoic Akuyuk-Maydantal geological region, which forms part of the thrust belt at the south-western foothills of the Karatau Ridge in the territory of Kyzylorda region in the south of Kazakhstan.

The stratigraphy comprises of Middle-Upper Devonian terrigenous red beds (Tiulkubash Formation) overlaid by a carbonate sequence comprising Fammenian, Fammenian-Lower Carboniferous, Tournesian and Visean formations.

Pb-Zn mineralization is stratiform and hosted by two carbonaceous-pelitic-siliceous-carbonate horizons within Upper Fammenian dolomites and sandstones.

Shalkiya Deposit

The Shalkiya lead and zinc deposit is the most important deposit in the district. Other deposits are at Talap, also owned by ShalkiyaZinc, and state-owned Burabai–Zhalgyzagash. Shalkiya is a blind deposit. It extends from a depth of about 20 metres in the north-west down to a depth of 800 metres in the south-east. The deposit covers an area of almost 6 kilometres in length and up to 1.2 kilometres in width.

The Shalkiya mineral deposit was discovered during a geochemical survey in 1963 and was subsequently explored in several stages from 1963 to 1994. During this period large quantities of geological data were collected in a detailed and methodical manner.

The shallower north-western section was explored until 1979 and the deeper south-eastern section from 1979 to 1994. Further core drilling and underground verification sampling was undertaken on the North-Western section in 1986 to 1994.

The development of the mine commenced in 1984 following designs developed by the Institute Giprotsvetmet of Moscow in 1982. From the start all infrastructure was installed to service the 3mtpa production rate, including the sinking of two shafts to a depth of 580 metres to service the south-eastern section of the mine. The operations were stopped in 1994 due to economic reasons, followed by the collapse of the Soviet Union.

ShalkiyaZinc successfully tendered a USD 1.4 million bid to purchase Shalkiya assets in 2001. During the period 2002 to 2004 the Company invested an additional USD 10 million on a programme of rehabilitation for the mine and the Kentau concentrator. Mine production recommenced in February 2004 and by 1 January 2008 1,722 thousand tonnes of ore grading 3.7%Zn and 1.6%Pb had been brought to the surface.

In 2007 AMC Consultants (UK) Ltd restated Shalkiya's Mineral Resource and Ore Reserve in accordance with the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

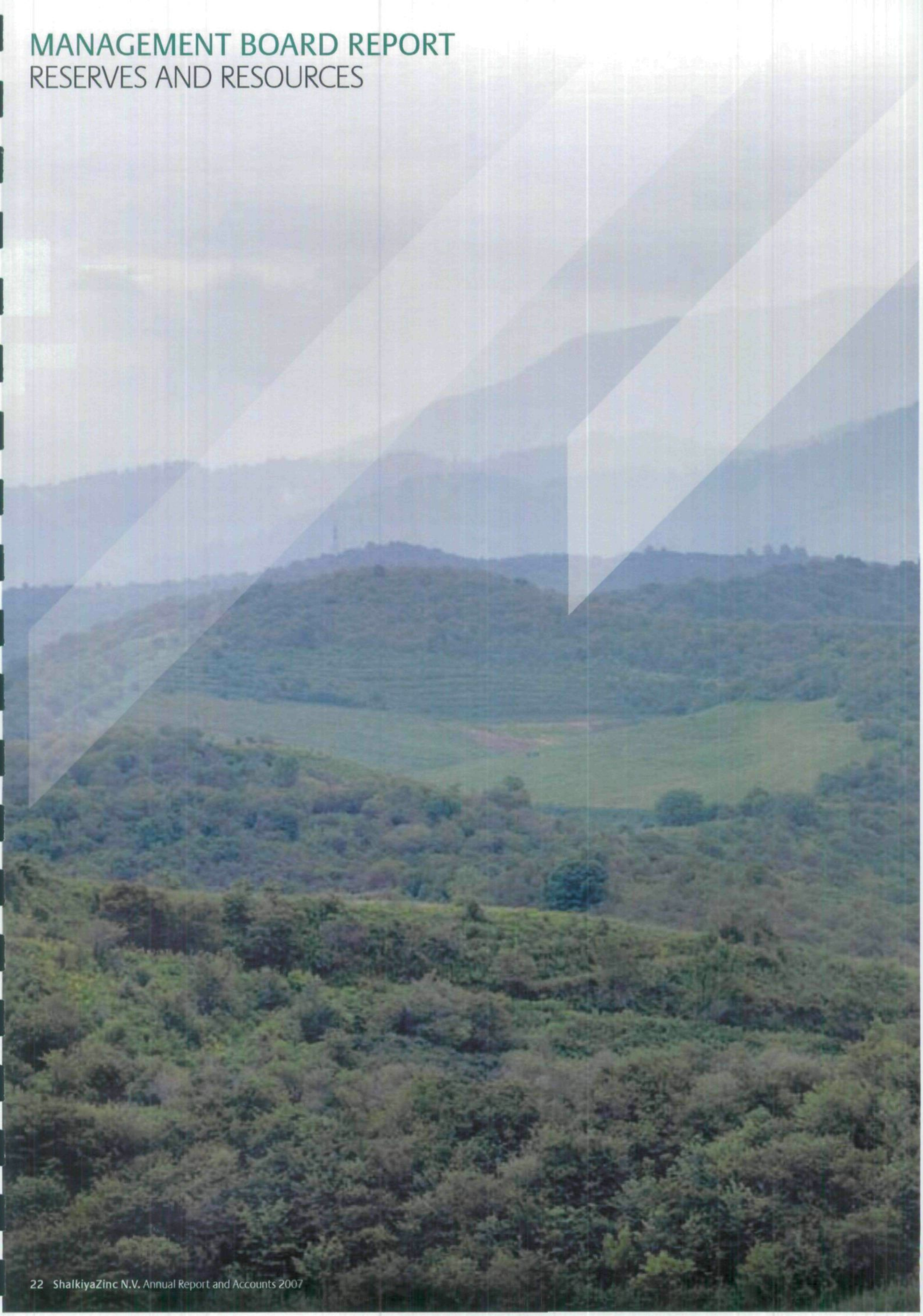
JORC Compliant Mineral Resources (at a 1.5 ZnEq cut-off) and Ore Reserves (at a 1.7% ZnEq Breakeven Grade)

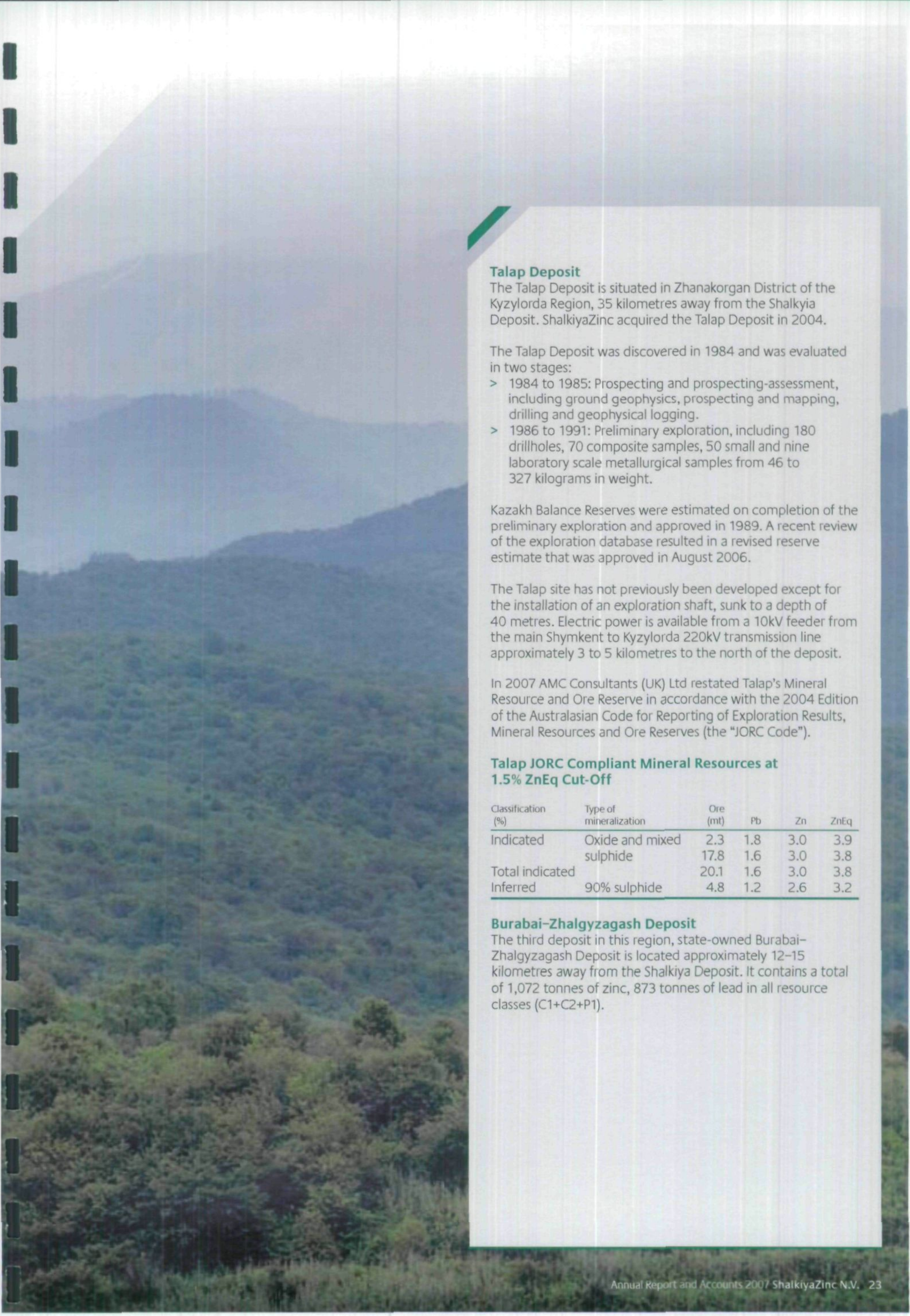
Category	Quantity (mt)	Pb (%)	Zn (%)	Zn grade (%)	Pb metal (mt)	Zn metal (mt)
Mineral resource						
Measured	58.8	1.0	3.2	3.7	0.6	1.9
Indicated	205.6	0.7	3.1	3.4	1.4	6.4
Total measured and indicated	264.4	0.8	3.1	3.5	2.1	8.2
Inferred	9.4	0.6	2.2	2.5	0.1	0.2
Ore reserve						
Proved	44.2	1.1	3.2	3.6	0.5	1.4
Probable	158.3	0.8	3.2	3.7	1.2	5.1
Total	202.5	0.8	3.2	3.7	1.7	6.6

Comparison of AMC's Ore Reserve Estimated with ShalkiyaZinc's Mining Reserve, Both at 3% ZnEq Cut-Off Grade

Estimate	Tonnage (mt)	Pb (%)	Zn (%)	Pb metal	Zn Metal
ShalkiyaZinc Total	101	1.2	4.0	1.26	4.07
AMC Total	125	1.0	3.8	1.27	4.77

MANAGEMENT BOARD REPORT
RESERVES AND RESOURCES





Talap Deposit

The Talap Deposit is situated in Zhanakorgan District of the Kyzylorda Region, 35 kilometres away from the Shalkyia Deposit. ShalkiyaZinc acquired the Talap Deposit in 2004.

The Talap Deposit was discovered in 1984 and was evaluated in two stages:

> 1984 to 1985: Prospecting and prospecting-assessment, including ground geophysics, prospecting and mapping, drilling and geophysical logging.

> 1986 to 1991: Preliminary exploration, including 180 drillholes, 70 composite samples, 50 small and nine laboratory scale metallurgical samples from 46 to 327 kilograms in weight.

Kazakh Balance Reserves were estimated on completion of the preliminary exploration and approved in 1989. A recent review of the exploration database resulted in a revised reserve estimate that was approved in August 2006.

The Talap site has not previously been developed except for the installation of an exploration shaft, sunk to a depth of 40 metres. Electric power is available from a 10kV feeder from the main Shymkent to Kyzylorda 220kV transmission line approximately 3 to 5 kilometres to the north of the deposit.

In 2007 AMC Consultants (UK) Ltd restated Talap's Mineral Resource and Ore Reserve in accordance with the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

Talap JORC Compliant Mineral Resources at 1.5% ZnEq Cut-Off

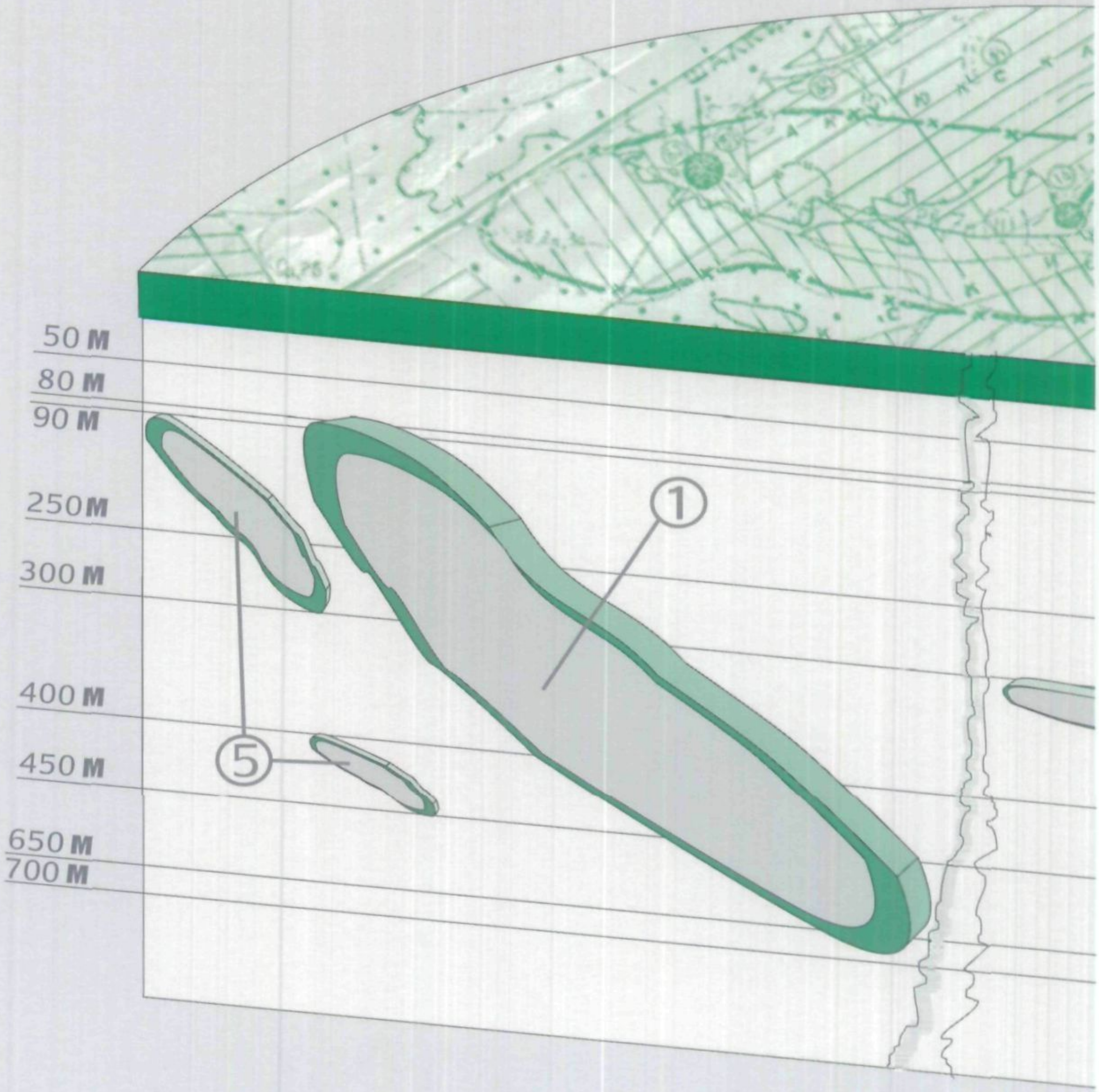
Classification (%)	Type of mineralization	Ore (mt)	Pb	Zn	ZnEq
Indicated	Oxide and mixed	2.3	1.8	3.0	3.9
	sulphide	17.8	1.6	3.0	3.8
Total indicated		20.1	1.6	3.0	3.8
Inferred	90% sulphide	4.8	1.2	2.6	3.2

Burabai–Zhalgyzagash Deposit

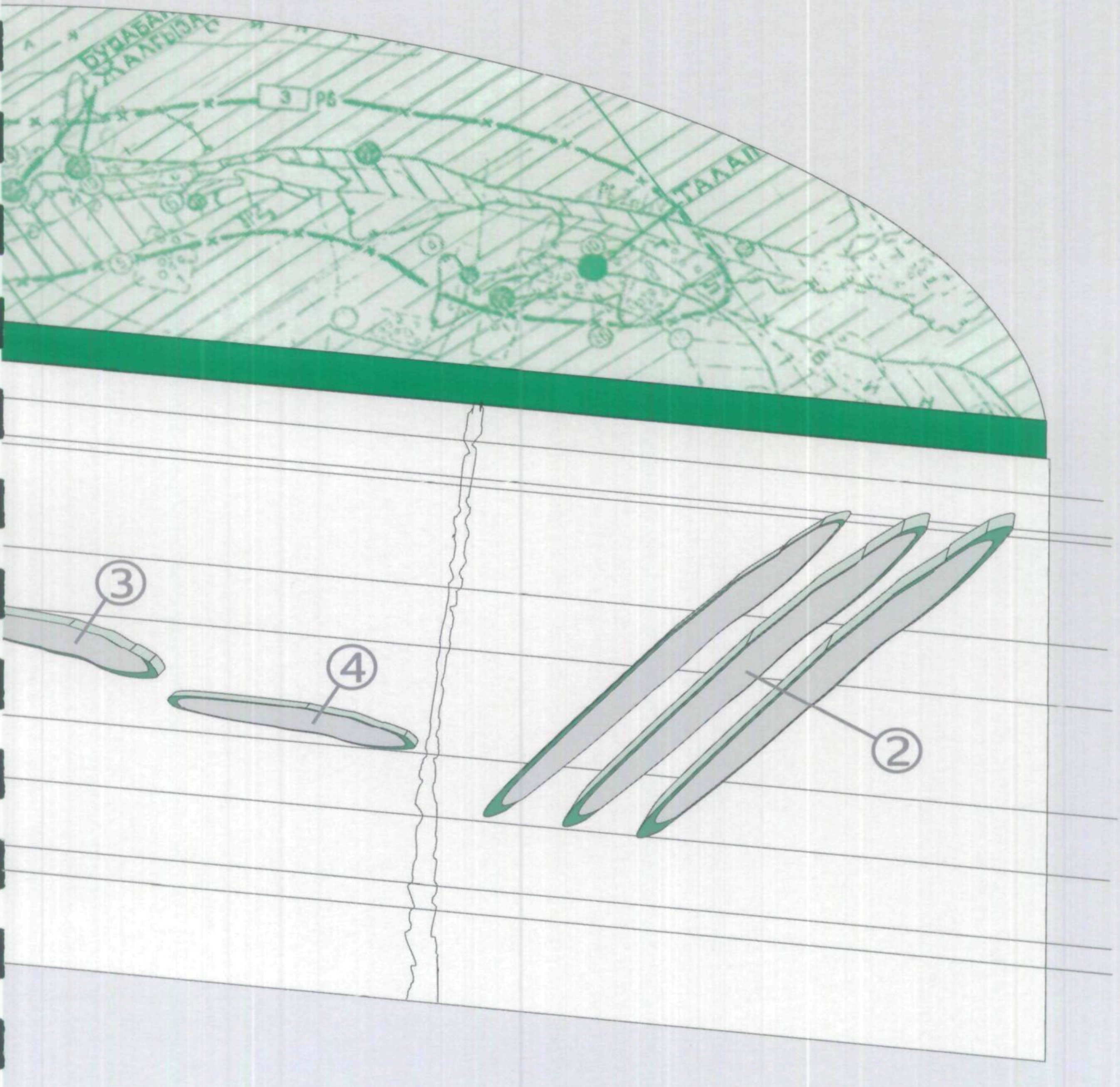
The third deposit in this region, state-owned Burabai–Zhalgyzagash Deposit is located approximately 12–15 kilometres away from the Shalkiya Deposit. It contains a total of 1,072 tonnes of zinc, 873 tonnes of lead in all resource classes (C1+C2+P1).

MANAGEMENT BOARD REPORT
RESERVES AND RESOURCES
OTHER DEPOSITS

Layout of the zinc and lead deposits at Shalkiya and Talap and potentially productive mineral deposits in the regions of Burabai–Zhalgyzagash and Shalkiya



1 Shalkiya Deposit
2 Talap Deposit
3 Burabai Deposit (exploration stage)
4 Zhalgyzagash Deposit (exploration stage)
5 Potentially productive areas of ore body of Shalkiya Deposit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The zinc price has fallen significantly from its high of USD 4,580 at the end of 2006. However, we believe that the global demand for zinc, lead by China, is growing and will outpace supply in the longer term, leading to sustained higher prices. Further, the Company has the advantage of convenient logistics in terms of proximity to Chinese, Russian and other Central Asian smelters.

Production

During 2007 ShalkiyaZinc worked on increasing production of zinc-lead ore output and sales levels. Ore mined increased by 88% and ore processed by 51% from 2006 levels. Sales of zinc concentrate increased by 36% from 2006 levels.

Quality Commitment

In 2007 the grade in zinc concentrate remained unchanged from 2006 levels at 45%. ShalkiyaZinc recognizes that improving the quality of the zinc and lead concentrates it produces will result in higher prices and margins. As part of this quality commitment, ShalkiyaZinc has appointed SRK Consultants (UK) Ltd to undertake a production performance review in an effort to establish operational improvements. Quality improvement will be achieved through current modernization and refurbishment of the Kentau Plant and construction of the New Processing Plant. This will reduce the level of non-metallic substances in our concentrates, such as moisture and silica.

Consumers of Zinc Concentrate

Since March 2004 ShalkiyaZinc has sold the majority of its zinc concentrate to the Almalyk Smelter in Uzbekhistan, located 350 kilometres from the Kentau Plant. Trade is conducted via the UK-registered trading company Cheriton Finance Limited. The Company has chosen this smelter as a principal customer due to the relatively lower transportation costs, lower treatment charges and other attractive commercial terms it offers under the off-take agreement. The smelter has an annual processing capacity of some 200,000 tonnes of zinc concentrate. In 2007 sales to the Almalyk Smelter amounted to 27,400 tonnes of zinc concentrate containing 12,700 of zinc metal (2006: 20,1000 tonnes, containing 8,900 tonnes of zinc metal). The variance between 2007 and 2006 sales in terms of tonnage and metal content is 36% and 43%, respectively.

The Company also sells zinc concentrate to a number of other customers at floating prices directly linked to zinc metal prices quoted on the LME. The price of zinc is adjusted for a number of factors, including transportation costs, metallurgical losses at the smelter and treatment charges for processing of concentrate.

Consumers of Lead Concentrate

At present the Company sells most of its output of lead concentrate to two traders based in China via the trading company Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co. The Company has been selling lead concentrate at prices linked to lead metal prices quoted on the LME. In 2007 overall sales amounted to 7,100 tonnes of lead concentrate containing 2,500 tonnes of lead metal (2006: 6,100 tonnes of lead concentrate containing 2,100 tonnes of lead metal). The variance between 2007 and 2006 sales in terms of tonnage and metal content is 17% and 18%, respectively.

Market Overview

Potential Customers

Potential ShalkiyaZinc customers are located mainly in Kazakhstan (Kazakhmys Zinc Smelter), Russia (Chelyabinsk Smelter) and China (17 zinc smelters in the Southern and South-Eastern Region), the countries to which ShalkiyaZinc already sells its zinc-lead concentrate. These potential customers are currently equipped to process the Company's concentrate.

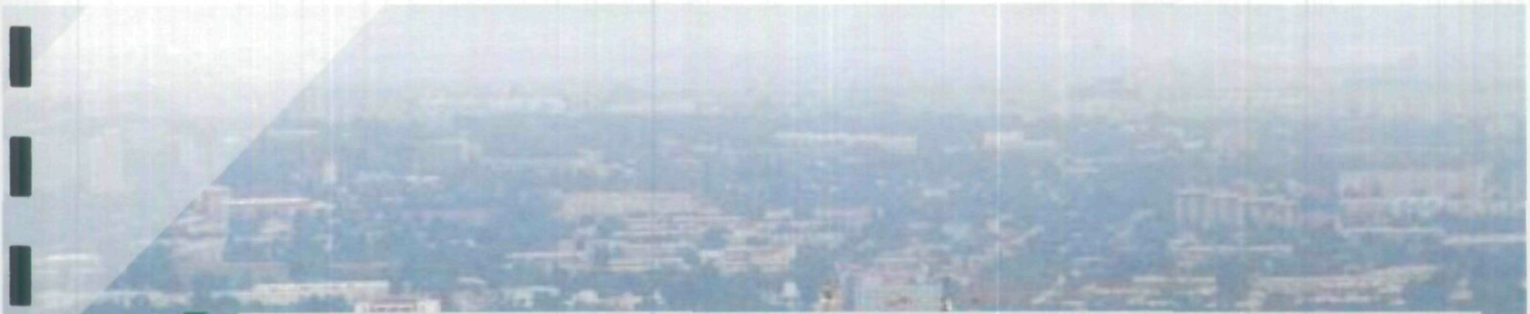
Growing Demand

The forecast for the development of the zinc industry in Kazakhstan is contingent on two principal factors:

> China's zinc demand and growth of its refining capacity (expected to exceed its ore mining capability)
> A decline in western mine production alongside the location of any newly discovered and explored zinc deposits in Kazakhstan

The first factor is significant since Kazakhstan's lead-zinc ore is usually sold on the markets in Kazakhstan, Uzbekistan, Russia and China. Predicted growth in Chinese demand should underpin our projected increase in future sales and gross revenues. According to Beijing Antaike Information Report, China's zinc smelting capacity is set to increase by 150,000 tonnes in 2008 and 350,000 tonnes in 2009, mainly due to newly commissioned operations in the Inner Mongolia Autonomous Region and Yunnan Province.

The second factor should also be considered, as the most convenient locations and richest deposits of ores have been mined over the last 10 years, leading to a decline in the range and quality of raw materials since the 1990s. Therefore, the ability of Kazakhstan's zinc producers to increase supply to meet this growing demand from China will significantly affect their future profitability.



As one of the leading zinc and lead mining companies in Kazakhstan, ShalkiyaZinc is responsible for ensuring and maintaining the highest standards of health and safety, positive working conditions, accident prevention measures, and environmental protection measures. ShalkiyaZinc maintains an active role with respect to local communities, supporting the steady economic and social development of the region. We cover the schooling costs for talented students of Shalkiya and encourage training courses for our engineers and management. In doing so the Company is investing in the sustainability of our business over the next 50 years.

Health and Safety Standards

ShalkiyaZinc regards health and safety as the key aspects of its operational activities. The health and safety objective of the Company is to ensure no production related incidents at any of ShalkiyaZinc's operations. However, regretfully, the Company experienced one fatality during 2007 due to non-compliance to safety regulations. The Company has established a Health, Safety and Environment Committee, which advises Management in formulating the Company's health, safety and environment policies, developing measures to reinforce safety awareness at its production facilities. A dedicated department deals with health and safety issues, monitors compliance with existing regulations in this area and is responsible for ensuring the safety of the workforce and the maintenance of industrial hygiene standards. This department includes an industrial hygiene specialist and two safety engineers, who work in close cooperation with the Company's management, operational departments and relevant governmental authorities. The Company contracted full-time Mine Rescue team, which not only provides emergency response to the Company, but also checks air quality during the shifts.

Our great ambition now is to develop an occupational health and safety management system that will be expected to match the requirements of an internationally recognized industry standard. The Company has obtained an insurance policy covering employment related damage to life and health of all the Company's employees up to the total limit of KZT 303 million (equivalent of USD 2.5 million).

Protection of Environment and Arrangements for Operational Monitoring

ShalkiyaZinc takes all reasonable measures to reduce the environmental impact from its mining and processing operations in the region, seeking guidance from industry best practice and Kazakh environment protection regulations, with which ShalkiyaZinc is compliant. In tandem with local authorities ShalkiyaZinc has developed an environmental monitoring plan, which includes chemical checks of ground water, soil and vegetation in and around the territory of ShalkiyaZinc's production facilities. Subsequent results are presented to relevant government environmental protection bodies. In 2007 Shalkiya invested KZT 1.2 million (USD 10,250) in the monitoring of production pollution levels. Shalkiya's production facilities have had new production equipment installed at Kentau and Shalkiya to ensure a low level of emissions is maintained. This task is supervised by the Company's dedicated environmental engineer who is responsible for the monitoring of compliance with Kazakhstan's environmental standards and requirements. ShalkiyaZinc has established and maintains a liquidation fund for rehabilitation of its sites, into which it is required to annually deposit 1% of its annual operating expenditures. The liquidation cost for the Shalkiya Mine is estimated to be KZT 1,180 million or USD 9.8 million. By the end of 2007 ShalkiyaZinc had accumulated KZT 8.5 million or USD 70,635 in the liquidations fund.

ShalkiyaZinc also invests in environmental protection measures at its production facilities. In 2007 the Company spent KZT 31.4 million (USD 120,826), of which KZT 4.3 million (USD 35,420) has been invested in upgrading environmental protection measures at the Shalkiya Mine and KZT 27 million (USD 223,640) at the Kentau Processing Plant. In comparison with 2006 the level of the Company's investment (KZT 11.4 million or USD 94,010) in re-enforcing environmental protection measures has increased 2.7 times during 2007. An emphasis is placed on the local environment and ShalkiyaZinc strives to ensure that the environmental impact of its production activity is minimal. The Company renews its environmental insurance policy on an annual basis as required by Kazakh environmental legislation. In 2006 the Company spent KZT 0.12 million (USD 1,000) and KZT 0.14 million or USD 1,215 on its environmental insurance policy.

In addition ShalkiyaZinc pays a special tax on its emissions; the tax rose more than seven times in 2007. In 2006 the tax on emissions by asset were as follows: Shalkiya Mine – KZT 0.41 million (USD 3,397), Kentau Plant – KZT 0.3 million (USD 2,480). In 2007 these figure were KZT 0.49 million (USD 4,107) and KZT 1.17 million (USD 9,231) respectively.

Staff Training

The Company covers the costs of educating five promising students of Mining and Engineering at faculties in Moscow and Almaty, as well as sponsorship of those students who wish to gain work experience with ShalkiyaZinc. ShalkiyaZinc has sponsored training courses for 11 employees, management and engineers, investing USD 17,460 throughout 2007 in staff training. Altogether the Company has spent USD 24,560 on schooling of talented students and management training programmes.

Local Community Development

As a result of the Company's local improvement programme, roads and infrastructure in the areas adjacent to the Shalkiya Mine, the Company's main operating facility, were substantially upgraded in 2006. The key objective is to use the presence of the mine to generate long-term sustainable opportunities for members of the local communities. The Company works in close cooperation with the local authorities to assist local communities in meeting their needs. The Company has undertaken to manage a steady water supply to the Shalkiya village.

MANAGEMENT BOARD REPORT
FINANCIAL PERFORMANCE

The Company's result in 2007 showed a 28% increase in revenues up to USD 31 million primarily due to significant increases in the production of zinc-lead concentrate and a net loss of USD 3.0 million, primarily due to the increase of sales to 7.8%, administrative expenses to 115%

Revenue
Revenues from concentrate sales increased by approximately 28% to approximately USD 31 million (2006: approximately USD 24.2 million) primarily as a result of a 36% increase in the sales of zinc concentrate. This was partly offset by a decrease in the LME metal prices on which the sale of our concentrates is based.

Revenues from sales of zinc concentrate constituted approximately 90% of total revenues in 2007, compared to 92.9% in 2006, with the balance mainly derived from sales of lead 8% and other sales 2%. The ratio between revenue from sales of zinc and lead concentrate changed due to a 100% increase of the LME lead price.

Net Profit/Loss
Net loss for 2007 was approximately USD 3.0 million (2006: net profit approximately USD 8 million). The Company recorded an impairment in the value of deferred taxes of USD 2 million. This decrease in the net profit also represents a 10% decrease in the LME price realized for zinc concentrate sales alongside a below inflation 7% increase in the cash operating costs per tonne of ore processed. Increased cost of sales and administrative expenses also had a negative impact on the net loss

Cost of Sales
The cost of sales increased by approximately USD 7.8 million (from USD 13.6 million to USD 21.4 million), primarily due to a higher volume of production and use of raw materials, as well as an increase in unit costs of raw materials and consumables.

Materials and consumables. The cost of ore mining and auxiliary materials used in the production process represent the greatest proportion of the cost of materials and consumables. The cost of materials and consumables increased by approximately 99% to USD 7.9 million (2006: USD 4 million) and accounts for approximately 36% of the total cost of sales (2006: 29%). This was a result of increased use and higher prices of consumables.

Power and other utilities costs. The cost of power and other utilities increased by approximately 86% to USD 3.3 million (2006: USD 1.8 million). This is due to a higher volume of production and an increase in electricity tariffs.

Staff costs. Staff costs rose by approximately 94% to USD 3.9 million (2006: USD 2 million), mainly due to an increase in the number of employees. At the end of the year, the company employed 1,163 compared to 821 in 2006.

General and Administrative Expenses
General and administrative expenses increased to approximately USD 6.8 million in 2007 from USD 3.2 million in 2006, representing an increase of 115%. The increase in general and administrative expenses was due to the following:

> A 618% increase in consultancy fees. The company engaged AMC Consultants for the evaluation of the Talap Deposit and SRK Consultants for the due diligence study and the advice on quality and operational improvements.

> A 53% increase in bank charges from approximately USD 0.115 million to USD 0.176 million due to increased volume of payments.

> A 45% increase in business trip expenses totalling approximately USD 0.2 million in 2007.

Distribution Costs
Distribution costs mainly consist of transportation costs (primarily transportation of goods for export to the Kazakh border) and packaging expenses. The increase in the distribution costs was mainly due to an increase in the volume of concentrate sales.

Taxation
The Company has written off approximately USD 2 million as an impairment of deferred tax. The income tax expenses amounted to approximately USD 3.1 million. The income tax benefit was USD 5.2 million in 2006.

Cash Operating Costs
Cash operating costs per tonne of ore processed increased from USD 27 per tonne in 2006 to USD 30.1 per tonne in 2007. The increase in cash operating costs in 2007 was due to across the board increases in costs, particularly with respect to labour, *electricity, transportation, consumables and reagents.*

Inflation Rates
The average rate of inflation in Kazakhstan was 18.8% in 2007 and 8.5% in 2006.

MANAGEMENT BOARD REPORT
RISKS AND UNCERTAINTIES

Risk is inevitable in business and the Company faces many risks. Some are specific to the Company, some relate to the Company's industry, some are Kazakhstan related and some relate to the environment in which the Company operates.

An investment in the Company's GDRs involves a high degree of risk. You should carefully consider the following risks, in addition to the section entitled "Risk Factors" in the Company's Prospectus in relation to its offer of GDRs. Additional risks and uncertainties that the Company or Management may not be aware of, or may believe are immaterial, could also adversely affect the Company's business, operating results and financial conditions.

Investors should pay particular attention to the fact that the majority of the Company's assets are located in Kazakhstan, which has a legal and regulatory regime that differs in some respects from legal and regulatory regimes in other countries. Companies engaged in zinc and lead mining activities face certain risks related to their operations (including their exploration and development activities), which may have an adverse effect on their business, operating results and financial condition. As 90% of the Company's revenue is derived from the sale of zinc concentrate, the price of zinc has a significant impact on the Company's operating results. The prices of both zinc and lead may vary significantly, due to a number of factors outside the Company's control.

The Company has appointed a Risk Management Committee reporting directly to the Board of Directors. This Risk Management Committee will identify, evaluate and develop strategies to minimize the impact of risks that can be controlled by the Company.

The Company depends on the Shalkiya Mine and the Kentau Plant in Kazakhstan for a substantial portion of its revenues and cash flow and therefore the Company's business will be harmed if the Shalkiya Mine's or the Kentau Plant's revenues are adversely affected. If the Company's current zinc sales arrangements (primarily to Almalyk Smelter in Kazakhstan) were terminated, the Company's financial performance could suffer.

The Company's future production growth is dependent, inter-alia, upon its success in developing, mining and processing its reserves. All mining operations are characterized by a high degree of uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions.

The Company's growth and future success depends to a significant extent upon the continued contributions of a number of the Company's key senior management and personnel, in particular the Management Board Chairman and members of the Management Board of Directors, Marat Sarkytbayev and Samat Kazymov, respectively. There is no certainty that the services of these key persons will continue to be available to the Company and, if the Company is not successful in retaining or attracting highly qualified individuals in key management positions, its business may be harmed.

Risks Relating to the Company's Industry

The Company faces competition from other zinc companies in all areas of its operations. Existing or future competition in the mining industry could materially and adversely affect the Company's prospects for mining and processing zinc-lead ore and success in the future. During this time, the economic feasibility of production may change. The Company will use the evaluation work of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining and processing. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralization. The Company faces foreign exchange risks that could adversely effect the results of its operations. Any changes in the relative exchange rates between the US dollar and the Kazakhstani tenge could affect the Company's results.

Kazakhstan-Related Risks

The Company's operations are subject to extensive government laws and regulations concerning mine safety, subsoil and land use and environmental protection in Kazakhstan. The Company incurs substantial capital and operating costs to comply with increasingly complex laws and regulations covering its operations. Regulation in Kazakhstan governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards of compliance. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Company's business, operating results and financial condition. The Company must comply with the Subsoil Use Contracts and is also required to maintain liquidation funds to be used upon the cessation of mining operations for environmental rehabilitation of lands covered by such contracts.

The Kazakh tax system imposes substantial burdens on the Company. The Company is subject to a broad range of taxes imposed at federal, regional and local levels. Laws related to these taxes have been in force for a relatively short period in comparison to tax laws in more developed market economies and few precedents with regard to the interpretation of these laws have been established. No assurances can be made that any new tax laws introduced by the Government will not result in the Company having to pay significantly higher taxes, which could have a materially adverse effect on the Company's business.

Social Risks and Business Environment

The Company's assets are located in Kazakhstan, a country which aims to establish a more Western-style business environment. There are still substantial differences between it and the West. Some of these differences and the ongoing process could adversely affect the Company and its operations or disrupt normal business activity. Kazakhstan is still developing the legal framework required by a fully developed market economy. Failure to obtain approvals from Kazakh authorities could cause the Company's business to suffer.

MANAGEMENT BOARD REPORT
LEADERSHIP TEAM

The Directors who held office at any time during the period under review are set out below:

SUPERVISORY BOARD

1. Graham McCartney
Chairman, Non-Executive Director

2. Rifat Rizoyev
Member, Non-Executive Director

3. Zhaksylyk Zharimbetov
Member, Non-Executive Director

MANAGEMENT BOARD

4. Marat Sarkytbayev
Chairman

5. Assylbek Abuov
Deputy General Director

6. Henk van Wijlen
Corporate Secretary

7. Samat Kazymov
Business Development Director

8. Ramilya Azelgareyeva
Financial and Economic Department Director

1. Graham McCartney
Chairman, Non-Executive Director
Mr. McCartney has more than 25 years' international mining and banking experience. He has worked as a Director of ING Barings and as an Associate Director of Warrior International, a mining finance advisory boutique, before becoming Managing Director of GMac Consulting in 2005, a metals and mining consultancy providing sector advice to a number of UK mining companies and financial institutions. Prior to this, Mr. McCartney spent 10 years in senior staff positions on the Zambian copper belt, with Goldfields in South Africa and as Business Development Manager for BP Minerals in the UK.

2. Rifat Rizoyev
Member, Non-Executive Director
Mr. Rizoyev is ShalkiyaZinc's majority shareholder. From 2002 to 2005, Mr. Rizoyev was Deputy Director of OJSC MAA, an international air transportation company. Since May 2005, he has served as General Director of Betpak Dala, a business operating in the uranium industry. All of the positions described above have been within the Republic of Kazakhstan.

3. Zhaksylyk Zharimbetov
Member, Non-Executive Director
Mr. Zharimbetov has served as President of the OJSC Kostanai Regional Electricity Company, Vice President on Economy and Commerce with OJSC KEGOC, President of investment company Vostok-Zapad (Moscow) and President of OJSC KrasnoyarskKraiUgol (Moscow). Since October 2005 Mr. Zharimbetov has been a member of the Board of Directors of JSC BankTuranAlem – the Company's principal lender and Kazakhstan's third largest bank.

4. Marat Sarkytbayev
Chairman
Mr. Sarkytbayev is ShalkiyaZinc's co-founder and General Manager of the operating company. Mr. Sarkytbayev has served as General Director of ShalkiyaZinc since 25 November 2002, by a resolution of the General Meeting of ShalkiyaZinc. Prior to this, Mr. Sarkytbayev held several similar positions, including President and Chairman of the Board of Directors of several companies and organizations, including JSC Araltuz, the Defense Committee of the Ministry of Energy of Kazakhstan, the Astana-Holding Group, and SOJSC Caspi Neft TME.

5. Assylbek Abuov
Deputy General Director
Mr. Abuov is co-founder of the Company. He has served as Deputy General Director since 10 January 2005 and prior to that as Commercial Director since 23 July 2001. Prior to his work with the Company, Mr. Abuov held several similar positions, including Deputy Director and Head of the Production Department at several companies including LLP Sabek, Infrakos and OJSC TemirBank.

6. Henk van Wijlen
Corporate Secretary
Henk van Wijlen began his career in 1989 with traineeships at Dutch and international firms in various industries, including at Heineken in Italy. Since 1994, he has been the Managing Director of Pan-Invest B.V., at its trust office in Delft, the Netherlands.

7. Samat Kazymov
Business Development Director
Mr. Kazymov is also a co-founder of the Company. He has served as Business Development Director of ShalkiyaZinc since 10 September 2003. Prior to this position, Mr. Kazymov held several similar positions, including Deputy General Director, Vice-President, Head of Management, and Director of several companies, including the JS Scientific-Production Partnership Tolagai, JSC Dalnye Elektroperedachi, JSC Altaienergo, Kazakhstan Electricity Grid Operating Company, LLP Kainar and JSC Temir Bank.

8. Ramilya Azelgareyeva
Financial and Economic Department Director
Mrs. Azelgareyeva has served as Director of the Company's Financial and Economic Department since 2 May 2002. Prior to this position, she held positions of Engineer-Economist, Chief Engineer, and Chief Economist at several companies and organizations including the Institute of Kazinalmazzoloto, LLP Geointsentr, and the Ministry of Geology of the Kazakhstan Soviet Socialist Republic.

Mrs. Azelgareyeva is also the author of methodological recommendations on the creation of feasibility studies on mineral deposits development. This methodology was formulated in 1995 in accordance with international standards, and at present is the principal authority utilized by subsurface users for the preparation of reports submitted for approval to the State Reserves Committee of Kazakhstan at different stages of geological exploration.

Directors' Interests

The interests of the Directors in the share capital of the Company at the end of the period were as follows:

Director share capital	% of issued
Marat Sarkytbayev (Chairman of the Management Board) and Samat Kazymov (Member of the Management Board)	13.40
Assylbek Abuov (Member of the Management Board)	11.17
Rifat Rizoyev (Member of the Supervisory Board)	49.88

No other Directors had an interest in the shares of the Company.

MANAGEMENT BOARD REPORT
CORPORATE GOVERNANCE

In December 2007 the Company commissioned PricewaterhouseCoopers to assess its current system of controls in relation to regulatory requirements and industry best practises with particular focus on corporate governance and company level controls. Furthermore, in January 2008, the Company engaged Jim Bell, an Associate of SRK Consulting (UK) Ltd, to implement the recommendations of the PricewaterhouseCoopers' report. Significant progress has been achieved in the areas of execution of the Board of Directors' duties and responsibilities, implementation of charters and establishment of sub-committees for improved management of the Company. The Company is also in the process of updating and modernizing its internal risk control and management information systems as part of this exercise, with Jim Bell taking a leading role in the implementation process of the PWC recommendations. This is an ongoing process.

The Dutch Code

The Dutch Corporate Governance Code (the "Dutch Code") drawn up by the Tabaksblat Commission was published on 9 December 2003 and became effective on 1 January 2004. The Code consists of 21 principles and 113 best practice provisions. The Dutch Code applies to all companies whose registered offices are located in the Netherlands and whose shares or depositary receipts are officially listed on a government recognized stock exchange (including foreign stock exchanges, such as the London Stock Exchange).

The Company generally subscribes to the principles promulgated by the Dutch Code and it is the intention of the Supervisory Board to implement the Dutch Code best practise provisions to the greatest possible extent in as short a time as possible. The Company has started to implement some of the principles and provisions of the Dutch Code during 2007 and continues to take the further steps it considers necessary to implement the Dutch Code. To this end the Company is currently engaged in a complete review of its current Corporate Governance status and will seek approval of the General Meeting for further implementation as appropriate.

The Company does not comply with the following best practice rules in respect of the Dutch Corporate Governance Code:

Number ii.1.6 The company currently does not have a whistleblowers policy, but is developing such a policy and expects to have it adopted by the end of 2008.

Number ii.2 The Company currently does not have a remuneration policy, but this is scheduled to be adopted at the 2008 AGM.

Number iii.7.1 There is an option scheme in place for the Chairman of the Supervisory Board. We believe it to be in the best interest of the Company to incentivize our Chairman of the Supervisory Board as he has undertaken an extended role outside of his normal non-executive duties and has been heavily involved in guiding the strategy and future development of the Company in its formative years. Such option schemes are relatively common in other jurisdictions, commensurate with the level of commitment undertaken by the individual. In this case, the option scheme was approved by the shareholders prior to the IPO and disclosed in the prospectus as being not in compliance with the Dutch Corporate Governance Code.

Directors

The Company currently has a two-tier Board system consisting of a Supervisory Board and Management Board which is currently under review with a recommendation to the General Meeting that the Company adopts a Unitary Board structure to improve communications and performance within the Board structure. Each body has different tasks and responsibilities.

Supervisory Board

The Supervisory Board, chaired by Graham McCartney, supervises the Management Board's conduct of affairs and the Company's general course of business and provides advice to the Management Board. The Board currently consists of three Non-Executive Directors.

Management Board

The Company's Management Board, chaired by Marat Sarkytbayev, is entrusted with the management of the Company. The Supervisory Board appoints a chairman from the members of the Management Board. The Management Board itself appoints a deputy for the chairman and a secretary. The Board currently consists of five Executive Directors.

Board Balance and Independence

The Board believes that it has sufficient members to contain a balance of experience and skills, but is not so large as to be unwieldy. The Board consists of a Management Board and a Supervisory Board, such that no individual, or group of individuals, can dominate the Board's decision making. No one individual has unfettered powers of decision. The Board keeps the membership of committees under review to ensure the gradual refreshing of skills and experience. The Board is satisfied that all Directors have sufficient time to devote to their roles and that it is not placing undue reliance on key individuals. Under the Dutch Code, at least one of the Supervisory Board members would not be viewed as independent. Mr. Rifat Rizoyev would not be considered independent as he is a Company shareholder.

Appointments to the Board

The Supervisory Board nominates and proposes candidates for membership of the Supervisory Board/Management Board who are appointed by the General Meeting. Shareholders at the General Meeting may reject a nomination and proposal with a majority of the votes cast representing at least one-third of the Company's issued share capital. The General Meeting may at all times suspend or dismiss each and any member of the Supervisory Board. A suspension may be extended one or more times, but may not last longer than three months in total. Management Board members are appointed by the General Meeting. According to the Articles, they may be appointed for a maximum period of four years and may be reappointed for an additional period of four years. The appointment must take place upon nomination by the Supervisory Board. A resolution in accordance with a nomination by the Supervisory Board requires a simple majority of all votes cast, while a resolution by the General Meeting other than in accordance with a nomination requires the same majority, but the votes cast must represent at least one-third of the Company's issued share capital. Members of the Management Board may also be suspended by the Supervisory Board, but only for a period not longer than three months. A member of the Management Board may at any time be suspended or dismissed by the General Meeting. The Supervisory Board also has the power to suspend a member of the Management Board. Such suspension can be extended several times, but may not extend to a period of three months in aggregate. The General Meeting may revoke a suspension made by the Supervisory Board. The Management Board may adopt rules regarding the process of holding meetings and adopting resolutions. The Management Board may also appoint staff members with general or limited power to represent the Issuer. The terms and conditions of appointment of all Directors are available for public inspection. Terms of reference of the committee are available on written request, addressed to the Company Secretary.

Remuneration

The Company has proposed a new remuneration policy following the PWC review which is expected to be put to the shareholders at the 2008 AGM.

Relations with Shareholders

The Dutch Code encourages a dialogue with institutional shareholders based on the mutual understanding of objectives. Extensive information about the Company and its activities is given in the annual report and accounts, and in the interim report. Further information is available on the company's website, www.zinc.kz, which is promptly updated whenever announcements or press releases are made.

In 2007 the Directors had ongoing communication with shareholders throughout the year, by participating in investor roadshows, visits to shareholders and scheduled half yearly updates. Feedback from these visits were then reported to the Board. The Directors also had regular contact with analysts and brokers, which aided their understanding of the views of major shareholders. In addition, the Chairmen of Supervisory and Management Boards offered shareholders the opportunity of meetings with either themselves or the Business Development Director to discuss governance, strategy or any other matters shareholders might wish to raise.

In 2008 the Company will also publish quarterly operational updates to keep its shareholders well informed of production results in an ongoing manner.

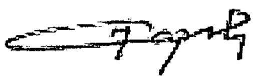
The Dutch Code encourages Boards to use the Annual General Meeting to communicate with investors and to encourage their participation. The Board welcomes as many shareholders as possible to attend the Annual General Meeting and shareholders are given the opportunity at the Annual General Meeting to discuss any issues of interest or concern, including performance, governance or strategy, with the Directors.

At general meetings, the Chairman of the Supervisory Board will announce the level of proxies lodged on each resolution, the balance for and against, and abstentions, after it has been dealt with by a show of hands. A separate resolution will be proposed at the Annual General Meeting in respect of each substantially separate issue. The Chairman of the Audit Committee will deal with matters relating to the Committee.

PricewaterhouseCoopers has been working on the assessment and identification of critical risks and control areas, as well as on the development of detailed recommendations for the improvement of company level controls since January 2008.

This report for the year ended 31 December 2007 was approved by the Board of Directors and authorized for issue on 11 June 2008.

Signed on behalf of the Board



Marat Sarkytbayev
Chairman of the Management Board
ShalkiyaZinc N.V.

LLP SHALKIYA ZINC LTD FINANCIAL STATEMENTS INDEX

	31 December 2007	31 December 2006
EXCHANGE RATES – KAZAKHSTANI TENGE		
Period-end rates		
1 US dollar	**120.30**	**127.00**
Average rates for the period		
1 US dollar	**122.09**	**126.10**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2007

The following statement, which should be read in conjunction with the independent auditors' report set out on page 38, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of LLP Shalkiya Zinc Ltd and its subsidiary (collectively, the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2007, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:
- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:
- designing, implementing and maintaining an effective and sound system of internal control, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, which enables them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were approved by management and authorized for issue on 29 April 2008.

Marat Sarkytbayev
General Director

Bagdat Tokbaev
Financial Director

Muchabbat Baitursynova
Financial Accounting Manager

29 April 2008
Almaty, Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Partners of LLP Shalkiya Zinc Ltd:

We have audited the accompanying consolidated financial statements of LLP Shalkiya Zinc Ltd and its subsidiary (collectively, the "Group") which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "consolidated financial statements").

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP
State licence on auditing of the Republic of Kazakhstan Number 0000015, type MFU-2, given by the Ministry of Finance of the Republic of Kazakhstan dated 13 September 2006.

Russell Banham
Engagement Partner
Chartered Accountant
Membership Number 24088
Australia

Nurlan Bekenov
General Director
Deloitte, LLP

29 April 2008

LLP SHALKIYA ZINC LTD
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

(in KZT thousands)

	Notes	2007	2006
Continuing operations			
Revenue	6	3,699,317	2,987,140
Cost of sales	7	(2,617,380)	(1,713,593)
Gross profit		**1,081,937**	**1,273,547**
General and administrative expenses	9	(720,236)	(337,027)
Distribution costs	10	(93,945)	(64,197)
Other operating (expense)/income, net		(4,953)	8,707
Interest income	11	28,685	328,500
Interest expense	11	(116,493)	(886,351)
Foreign exchange gain, net		289,735	118,881
Other expenses, net		(7,476)	(19,634)
Profit before income tax expense		**457,254**	**422,426**
Income tax (expense)/benefit	13	(380,075)	659,333
Profit for the year from continuing operations		**77,179**	**1,081,759**
Discontinued operations			
Profit/(loss) for the year from discontinued operations	12	**12,224**	**(70,791)**
Net profit for the year		**89,403**	**1,010,968**

On behalf of the Management Board:

Marat Sarkytbayev
General Director

Bagdat Tokbaev
Financial Director

Muchabbat Baitursynova
Financial Accounting Manager

29 April 2008
Almaty, Republic of Kazakhstan

The notes on pages 43 to 64 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 38.

LLP SHALKIYA ZINC LTD
CONSOLIDATED BALANCE SHEET
As at 31 December 2007

(in KZT thousands)

	Notes	31 December 2007	31 December 2006
Assets			
Non-current assets			
Property, plant and equipment	14	6,517,678	2,375,288
Exploration costs	15	179,687	225,628
Long-term portion of VAT receivable		536,391	78,318
Prepayments for long-term assets	16	936,676	77,907
Other financial assets	11	201,031	–
Restricted cash	20	1,782,857	5,778
Deferred tax assets	25	274,020	659,333
Total non-current assets		**10,428,340**	**3,422,252**
Current assets			
Short-term portion of VAT receivable		473,488	430,971
Inventories	17	997,829	586,931
Accounts receivable	18	395,408	38,764
Receivable from parent company		–	78,059
Prepayments to suppliers	16	524,254	92,622
Available-for-sale securities	19	213,348	–
Cash and cash equivalents	20	44,313	3,634,697
Total current assets		2,648,640	4,862,044
Total assets		**13,076,980**	**8,284,296**
Partner's equity and liabilities			
Partner's equity			
Partner's capital	21	2,882,668	78
Accumulated losses		(1,792,147)	(1,881,550)
Asset revaluation reserve		(41,645)	–
Total partner's equity		**1,048,876**	**(1,881,472)**
Non-current liabilities			
Borrowings due to parent company	22	6,257,617	6,350,000
Borrowings due to BankTuranAlem	22	2,280,648	202,422
Provision for future site restoration	23	269,599	256,325
Due to the Republic of Kazakhstan	24	229,313	217,921
Total non-current liabilities		**9,037,177**	**7,026,668**
Current liabilities			
Borrowings due to parent company	22	309,070	2,923,204
Borrowings due to BankTuranAlem	22	754,714	115,530
Trade accounts payable	26	1,100,876	47,705
Taxes payable	27	24,978	24,893
Advances received		39,046	3,938
Other liabilities	28	762,243	23,830
Total current liabilities		**2,990,927**	**3,139,100**
Total partner's equity and liabilities		**13,076,980**	**8,284,296**

On behalf of the Management Board:

Marat Sarkytbayev
General Director

Bagdat Tokbaev
Financial Director

Muchabbat Baitursynova
Financial Accounting Manager

29 April 2008
Almaty, Republic of Kazakhstan

The notes on pages 43 to 64 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 38.

LLP SHALKIYA ZINC LTD
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

(in KZT thousands)

	Notes	31 December 2007	31 December 2006
Operating activities			
Profit before income tax expense		474,716	351,635
Adjustments for:			
Amortization and depreciation charge	14	355,077	260,667
Loss on disposal of property, plant and equipment		6,360	2,670
Loss on sale of short-term investments held-for-sale		-	9,838
Gain on disposal of subsidiary	12	(31,431)	(1,595)
Finance costs	11	116,493	876,513
Provision against doubtful debts	18	12,473	-
Provision for prepayments against suppliers' account	16	19,584	-
Provision against obsolete inventory	17	36,112	-
Foreign exchange gain, net		(289,195)	(113,269)
Operating income before changes in working capital		700,189	1,386,459
Increase in accounts receivable		(380,886)	(32,052)
Increase in VAT receivable		(524,144)	(16,985)
Increase in inventories		(478,172)	(12,013)
(Increase)/decrease in prepayments to suppliers		(884,355)	28,917
Increase in trade accounts payable		1,654,525	22,941
Decrease/(increase) in receivable from parent company		78,059	(78,059)
Increase in taxes payable		857	21,001
Increase/(decrease) in advances received and other current liabilities		930,944	(54,148)
Net cash generated from operations		1,097,017	1,266,061
Interest paid		(31,179)	(1,870,703)
Net cash from/(used in) operating activities		**1,065,838**	**(604,642)**
Investing activities			
Purchase of property, plant and equipment and supplier prepayments*		(5,556,794)	(550,832)
Proceeds from disposal of property, plant and equipment		29,971	12,173
Realization from investments in securities		-	3,993,962
Consideration from disposal of subsidiary, net of cash transferred		26,250	-
Increase in exploration costs		(2,709)	(25,382)
Purchase of available-for-sale securities	19	(254,993)	-
Restricted cash deposit		(1,777,079)	(3,806)
Purchase of subsidiary's equity		-	(7,800)
Net cash (used in)/from investing activities		**(7,535,354)**	**3,418,315**
Financing activities			
Capital contribution by parent company	21	2,882,590	-
Repayment of parent company borrowings	22	(2,845,331)	-
Proceeds from parent company borrowings	22	302,350	-
Proceeds from BankTuranAlem borrowings	22	2,684,528	9,438,204
Repayment of BankTuranAlem borrowings	22	(95,135)	(8,618,607)
Net cash from financing activities		**2,929,002**	**819,597**
Net (decrease)/increase in cash and cash equivalents		**(3,540,514)**	**3,633,270**
Cash and cash equivalents, beginning of the year	20	**3,634,697**	**26,850**
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(49,870)**	**(25,423)**
Cash and cash equivalents, end of the year	20	**44,313**	**3,634,697**

*The following non-cash transaction was excluded from investing and financing activities:

	31 December 2007	31 December 2006
Non-cash financing activities		
Unpaid capitalized interest for purchase of property, plant and equipment	41,867	-

On behalf of the Management Board:

Marat Sarkytbayev
General Director

Bagdat Tokbaev
Financial Director

Muchabbat Baitursynova
Financial Accounting Manager

29 April 2008
Almaty, Republic of Kazakhstan

The notes on pages 43 to 64 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 38.

LLP SHALKIYA ZINC LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

(in KZT thousands)

	Notes	Partner's capital	Accumulated losses	Asset revaluation reserve	Minority interest	Total
At 1 January 2006		78	(2,892,518)	–	1,595	(2,890,845)
Change in ownership		–	–	–	(1,595)	(1,595)
Net profit for the year		–	1,010,968	–		1,010,968
At 31 December 2006		78	(1,881,550)	–	–	(1,881,472)
Parent company capital contribution	21	2,882,590	–	–	–	2,882,590
Fair value adjustment on available-for-sale securities	19	–	–	(41,645)	–	(41,645)
Net profit for the year		–	89,403	–	–	89,403
At 31 December 2007		**2,882,668**	**(1,792,147)**	**(41,645)**	**–**	**1,048,876**

On behalf of the Management Board:

Marat Sarkytbayev
General Director

Bagdat Tokbaev
Financial Director

Muchabbat Baitursynova
Financial Accounting Manager

29 April 2008
Almaty, Republic of Kazakhstan

The notes on pages 43 to 64 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 38.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. Nature of the Business
LLP Shalkiya Zinc Ltd (the "Company") and its subsidiary (the "Group") were incorporated in April 2001 in Almaty, Republic of Kazakhstan. The Group's activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Group on 31 May 2002 for the extraction of complex ore in the Shalkiya field for the period from 2002 to 2046. The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda oblast of the Republic of Kazakhstan. The Group operates the Shalkiya mine and the Kentau concentrator. The main products produced are zinc and lead concentrates.

Legal name of the Company	LLP Shalkiya Zinc Ltd
Legal address of the Company	Satpayeva 18A, Almaty, 050013, Kazakhstan
Legal registration number	39197-1910-TOO dated 12 February 2004

The Group's business development features the following main stages:

Development strategy of the Company is to build vertically integrated production, including closed cycle of mining metallurgical production from the deposit (ore mining) to zinc smelter (zinc production). The Group's business development strategy features the following main stages:

1st stage: Modernization and expansion of the Shalkiya Mine and the Kentau Plant to process up to 1.5 million tonnes per annum (mtpa) of ore will be completed in 2008. The Group intends to process ore from the Shalkiya Mine in Kentau Plant until construction of the New Processing Plant is completed in 2011 (see 2nd stage). The Group is considering the following options for the Kentau Plant:
- Using Talap Deposit ore for processing in the Kentau Plant. The reserves of the Talap Deposit are approved by minutes of the State Reserves Committee of the Republic of Kazakhstan No 524-06-Y dated 29 August 2006. The Group is transferring the Talap Deposit from exploration stage to development stage. The relevant documents have been submitted to the State Committee on Geology for approval to progress to mine development.
- Processing third party ore deposits which are located nearby to the Kentau Plant.

The operational and financial implications of all options are being assessed by management and the directors.

2nd stage: Construction of a new 4mtpa processing plant and expansion of the Shalkiya Mine by 2011. The Group has signed a contract with Mekhanobr Engineering CJSC for detailed engineering design.

3rd stage: Development of resources and commencement of production at the Talap Deposit. The Group has submitted the documentation to the relevant authorities to transfer the Talap Deposit from exploration and evaluation stage to development stage. Approval is expected to be given by mid 2008. The Group plans to spend USD 451 thousand for this purpose.

4th stage: Possibility of supporting a fully-integrated operation with addition of a metallurgical plant.

The number of employees of the Group as at 31 December 2007 was 1,163 (31 December 2006: 821). Total staff costs for the year ended 31 December 2007 were KZT 630,407 thousand (the year ended 31 December 2006: KZT 423,834 thousand).

As at 1 January 2006 the Company directly owned 95% of Geoinforminvest and the remaining 5% was owned by one of the former partners, LLP Polymetall Resources. In August 2006, the Company acquired the outstanding 5% interest in Geoinforminvest from LLP Polymetall Resources for a total consideration of KZT 7,800 thousand. Subsequently, the Company purchased all the assets and liabilities of Geoinforminvest and dissolved this subsidiary in October 2006.

On 6 November 2006 ShalkiyaZinc N.V., a public limited company was incorporated under the laws of the Netherlands. The authorized share capital of ShalkiyaZinc N.V. is EUR 225,000 divided into 22,500,000 shares, each with a nominal value of EUR 0.01 per share, of which 4,500,000 shares were issued and fully paid-up at par value.

On 20 November 2006 Denmar Asset Management Inc. BVI, LLP Polymetall Resources and LLP Agroneft sold their respective interests in the Company to ShalkiyaZinc N.V. which became the sole partner of the Company on that date.

Before the application for listing on the London Stock Exchange the ultimate beneficial shareholders were:
- Rifat Rizoyev (67%);
- Assylbek Abouv (15%); and
- Marat Sarkytbayev and Samat Kazymov jointly (18%).

On 14 December 2006 ShalkiyaZinc N.V. became listed on the London Stock Exchange by issuing Global Depositary Receipts (GDRs). Ten GDRs represent one share in the Company.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

1. Nature of the Business continued
After the Initial Public Offering on the London Stock Exchange, the ultimate beneficial shareholders became:
- Kazakh individuals (74.45%)
- Rifat Rizoyev (49.88%)
- Assylbek Abuov (11.17%)
- Marat Sarkytbayev and Samat Kazymov jointly (13.40%)
- Public (25.55%)

During the year ended 31 December 2007 the Group disposed of its wholly-owned subsidiary, the Stone Crushing Plant (see note 29). This asset was a non-core operation. 40% of shares of the subsidiary were sold to "Polymetall Resources" Ltd which is owned by general director Marat Sarkytbayev (80%) and business development director Samat Kazymov (20%), executive officers of the Group.

2. Basis of Presentation
The Group maintains its accounting records in local currency being the Kazakhstani tenge ("KZT" or "tenge") under International Financial Reporting Standards ("IFRS").

The consolidated financial statements were prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

(a) Going Concern
These consolidated financial statements have been prepared on a going concern basis.

(b) Functional Currency
The functional currency of these consolidated financial statements is the Kazakhstani tenge.

3. Adoption of New and Revised International Financial Reporting Standards
In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; and IFRIC 10 "Interim Financial Reporting and Impairment". The adoption of these Interpretations has not led to any significant changes in the Group's accounting policies.

At the date of authorization of these financial statements the following Standards and Interpretations were in issue but not yet effective:

New Standards:		
IFRS 8	"Operating Segments"	Effective for annual periods beginning on or after 1 January 2009
Amendments to Standards:		
IAS 23	"Borrowing Costs"	Effective for annual periods beginning on or after 1 January 2009
IAS 1	"Presentation of Financial Statements"	Effective for annual periods beginning on or after 1 January 2009
IAS 27	"Consolidated and Separate Financial Statements"	Effective for annual periods beginning on or after 1 July 2009
IAS 31	"Interests in Joint Ventures"	Effective for annual periods beginning on or after 1 July 2009
IFRS 3	"Business Combinations"	Effective for annual periods beginning on or after 1 July 2009
New Interpretations:		
IFRIC 11	"IFRS 2: Group and Treasury Share Transactions"	Effective for annual periods beginning on or after 1 March 2007
IFRIC 12	"Service Concession Arrangements"	Effective for annual periods beginning on or after 1 January 2008
IFRIC 13	"Customer Loyalty Programmes"	Effective for annual periods beginning on or after 1 January 2008
IFRIC 14	"IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction"	Effective for annual periods beginning on or after 1 January 2008

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group in the period of initial application.

4. Summary of Significant Accounting Policies

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of Consolidation

These consolidated financial statements are presented in thousands of tenge unless otherwise stated.

The consolidated financial statements incorporate the financial statements of the Company and other enterprises where the Company directly or indirectly exercises control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of controlled entities to bring the accounting policies used into line with those used by the Company.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions, balances and unrealised gains/(losses) on transactions are eliminated on consolidation.

(c) Property, Plant and Equipment

Property, plant and equipment are carried at historical cost less any accumulated depreciation.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated income statement as incurred.

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project are capitalized and carried at cost with the intention that these costs will be amortized by charges against earnings from future mining operations. Development assets are measured at cost. Upon commencement of production, exploration and development costs are amortized over the life of the mine.

Amortization of assets under construction commences when the assets are brought into commercial production. Amortization and depreciation is charged so as to write off the cost of assets, other than assets under construction, over the life of the mine by using the estimated useful lives of the assets using the straight-line method, on the following basis:

Mine development costs	25 years
Buildings and construction	10-20 years
Vehicles	6-7 years
Machinery and production equipment	5-10 years
Other property, plant and equipment	4-10 years

Gains and losses on property, plant and equipment disposals are calculated as the difference between selling price and the carrying amount assets at the date of disposal and are included in other income/(expense) in the consolidated income statement.

(d) Exploration Costs

Expenditures related to the following activities are initially measured at cost and capitalized as exploration assets: acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling; and activities in relation to evaluating technical feasibility and commercial viability of extracting a mineral resource.

Expenditures not included in the initial measurement of exploration assets are: development of a mineral resource once the technical feasibility and commercial viability of extracting a mineral resource has been established and administration and other general overhead costs.

The decision to develop a mine property within a project area is based on the exploration and evaluation results, an assessment of the commercial viability of the property and the availability of financing. Once a decision to proceed with the development is made, capitalized exploration and evaluation expenditures relating to the project are transferred to capital construction-in-progress as part of the development cost of the mine property.

4. Summary of Significant Accounting Policies continued

(e) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. This accounting treatment does not apply to goodwill where there is no reversal in subsequent periods of impairment losses previously recognized.

(f) Inventories

Finished goods – Finished goods are measured at the lower of net production costs or net realizable value per unit. The net cost of production per unit of a product is determined by dividing total production cost, allocated in the ratio of the contribution of these products to total relative sales value, by the saleable mine output of a product.

Production costs include on-mine and concentrating costs, treatment and refining costs, other cash costs and amortization and depreciation of operating assets.

Work-in-process – Work-in-process is stated at the net unit cost of production based on the percentage of completion method.

Stores and materials – Consumable stores and materials are stated at weighted average cost less a provision for obsolete items.

(g) Accounts Receivable

Accounts receivable are measured on initial recognition at fair value and reduced by appropriate allowances for estimated unrecoverable amounts.

(h) Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents include all highly liquid investments readily convertible into cash with maturity date at acquisition of less than three months.

(i) Available-for-Sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as: (a) loans and receivables; (b) held-to-maturity investments; or (c) financial assets at fair value through profit or loss. Any gain or losses in the fair value of an available-for-sale financial asset are recognized directly in equity in the asset revaluation reserve with the exception of impairment losses (which are recognized in the consolidated income statement).

(j) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

4. Summary of Significant Accounting Policies continued

(k) Financial Liabilities

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities are classified as at fair value through profit or loss where the liability is either designated as such or is held for trading. Such liabilities are stated at fair value with any resultant change recognized in profit or loss.

Other financial liabilities including borrowings are initially measured at fair value and are subsequently measured in each reporting period at amortized cost using the effective interest rate method. Carrying amounts of other financial liabilities are adjusted where revisions are made to estimates of future liabilities by computing the present value of estimated future cash flows at the original effective interest rate. Any adjustment is recognized in the consolidated income statement.

(l) Employee Benefit Obligations

The Group does not have any pension arrangements other than the state pension system of the Republic of Kazakhstan, which requires contributions by employees calculated as a percentage of current gross salary payments. Such contributions form part of salaries and are expensed in the consolidated income statement.

(m) Offset of Financial Assets and Liabilities

Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to offset the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(n) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(o) Revenue Recognition

Revenue is recognized when legal title and all the risks and benefits associated with the ownership of goods are passed to the customers and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and Value Added Tax ("VAT").

(p) Royalty Expenses

Royalty expenses are accounted for on an accruals basis based on production and are recognized in the consolidated income statement as incurred.

(q) Taxation

Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to offset the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

(r) Contingencies

Contingent liabilities are not recognized as a liability in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

(s) Foreign Currency Translation

Transactions in currencies other than the tenge are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing at the balance sheet date. All translation differences are included in the consolidated income statement for the year.

4. Summary of Significant Accounting Policies continued

(t) Provision for Future Site Restoration

Provision for future site restoration is recognized based upon the estimated fair value of probable legal or constructive obligations associated with dismantlement and site restoration due to the retirement of tangible long-lived assets. Estimated future site restoration obligations are discounted to estimate the fair value of the obligation and recorded as a liability when the related assets are constructed and commissioned. The provision is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

(u) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(v) Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. Derivative assets or liabilities are presented as non-current as they are not expected to be realized or settled within 12 months.

5. Accounting Estimates and Judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Critical judgements in applying the Group's accounting policies – In the process of applying the Group's accounting policies, which are described in note 4, management has made the following judgements that have the most significant effect on the amounts recognized in the consolidated financial statements:

Useful economic lives of property, plant and equipment – The Group's mining and non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically reviews the appropriateness of useful economic lives of assets. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any changes required to depreciation expense are accounted for on a prospective basis.

Provision for future site restoration – The Group reviews site restoration obligations at each balance sheet date and adjusts recorded provisions to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in a provision where there is sufficient objective evidence that they will occur.

Impairment of assets – The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment of impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash generating units and in estimating the timing and value of the underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Contingencies – By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Interest rate on parent company loans – The Group has US dollar denominated loans from ShalkiyaZinc N.V. (see notes 22, 30). The rate of interest on the loan depends upon the level of profit before income tax of the Group. The effective interest rate applicable to these loans is estimated to be 9.75%.

Fair value of derivatives – The fair value of derivatives is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for valuation of derivatives that are not traded in active markets.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

6. Revenue

	2007	2006
Revenue from sales of zinc concentrate	3,403,422	2,838,064
Revenue from sales of lead concentrate	295,895	149,076
Revenue from sales of crushed stones	80,430	66,602
	3,779,747	**3,053,742**
Attributable to:		
Continuing operations	3,699,317	2,987,140
Discontinued operations (see note 12)	80,430	66,602
	3,779,747	**3,053,742**

7. Cost of Sales

	2007	2006
On-mine and concentrating costs (see note 8)	1,932,529	1,136,566
Ore transportation expenses	521,062	254,434
Other expenses (including royalty)	46,378	80,883
Cash operating cost	**2,499,969**	**1,471,883**
Amortization and depreciation of operating assets	320,734	248,820
Total cost of production	**2,820,703**	**1,720,703**
Change in inventories	(148,268)	35,618
Total	**2,672,435**	**1,756,321**
Attributable to:		
Continuing operations	2,617,380	1,713,593
Discontinued operations (see note 12)	55,055	42,728
	2,672,435	**1,756,321**

8. On-mine and Concentrating Costs

	2007	2006
Consumables and spares	971,429	505,007
Labour	482,727	256,512
Power and other utility costs	403,000	224,305
Maintenance of property, plant and equipment	14,790	68,125
Third party services	60,583	82,617
	1,932,529	**1,136,566**

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

9. General and Administrative Expenses

	2007	2006
Payroll and salary taxes	275,135	221,609
Taxes	85,576	68,783
Consulting services	85,366	12,281
Provision against obsolete inventory (see note 17)	36,112	-
Depreciation (see note 14)	34,343	11,847
Business trip expenses	25,260	17,973
Materials	25,206	13,366
Bank charges	21,154	14,509
Provision for prepayments against suppliers' account	19,584	-
Rent	17,543	17,071
Communication	14,124	10,693
Withholding tax	13,842	-
Provision against doubtful debts (see note 18)	12,473	-
Provision for vacation	12,147	-
Sponsorship	7,972	-
Printing services	7,663	-
Maintenance costs	6,717	991
Insurance	6,151	5,061
Post Office services	2,519	-
Social programme costs	1,504	-
Presentation of Company	1,342	-
Advertisement service	1,091	-
Notary service	582	450
Security services	524	3,273
Other	28,585	2,272
	742,515	**400,179**
Attributable to:		
Continuing operations	720,236	337,027
Discontinued operations (see note 12)	22,279	63,152
	742,515	**400,179**

10. Distribution Costs

	2007	2006
Railway services	85,962	67,861
Packaging expenses during transportation	13,190	10,010
Other	11,624	6,462
	110,776	**84,333**
Attributable to:		
Continuing operations	93,945	64,197
Discontinued operations (see note 12)	16,831	20,136
	110,776	**84,333**

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

11. Finance Costs, Net

	2007	2006
Interest income related to available-for-sale securities	28,685	328,500
Interest income	**28,685**	**328,500**
Interest expense related to borrowings due to parent company (see note 22)	248,850	2,204
Fair value adjustment on derivative asset	(201,031)	-
Loss on sale of short-term investment held-for-sale	-	9,838
Interest expense related to borrowings due to BankTuranAlem (see note 22)	32,511	855,000
Unwinding of discount (see note 23)	13,274	6,332
Unwinding of discount (see note 24)	22,889	12,977
Interest expense	**116,493**	**886,351**

Derivative Financial Instrument

The Company has designated the "profit linking feature" within the parent company debt as an embedded derivative and has classified it as a non-current liability as the debt to which the derivative is linked is repayable in 2061. This feature is not closely related to the debt host contract and therefore requires separation and measurement at fair value through profit or loss. The embedded derivative has been classified at fair value through profit or loss. The debt host contract is measured at amortized cost with interest expense recognized in accordance with the effective interest rate method. The embedded derivative is classified in the financial statements as follows:

	31 December 2007	31 December 2006
Other financial asset carried at fair value through profit or loss	**201,031**	-

12. Profit for the Year from Discontinued Operations

	31 December 2007	31 December 2006
Revenue (see note 6)	80,430	66,602
Cost of sales (see note 7)	(55,055)	(42,728)
Gross profit	25,375	23,874
General and administrative expenses (see note 9)	(22,279)	(63,152)
Distribution costs (see note 10)	(16,831)	(20,136)
Other expenses, net	(234)	(11,377)
Loss before income tax	(13,969)	(70,791)
Income tax benefit	4,191	-
Net loss for the year	(9,778)	(70,791)
Gain on disposal of subsidiary (see note 29)	31,431	-
Attributable income tax expense	(9,429)	-
Profit/(loss) for the year from discontinued operations	**12,224**	**(70,791)**

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

13. Income Tax Expense/(Benefit)

	2007	2006
Tax expense recognized in profit or loss comprises:		
Current tax expense/(benefit)	-	-
Deferred tax expense/(benefit)	385,313	(659,333)
Total income tax expense/(benefit)	**385,313**	**(659,333)**
Tax expense/(benefit) for the year can be reconciled to the profit per the consolidated income statement as follows:		
Profit before taxation from continuing operations	457,254	422,426
Profit/(loss) before taxation from discontinued operations (see note 12)	17,462	(70,791)
Profit before taxation	474,716	351,635
Income tax expense at the statutory tax rate of 30%	142,415	105,490
Impairment of unused tax losses recognized as deferred tax asset	244,140	-
Effect of expenses that are not deductible in determining taxable profit	3,996	38,568
Effect of revenue that is exempt from taxation	(5,238)	-
Effect of previously unused tax losses recognized as deferred tax assets	-	(803,391)
Tax expense/(benefit)	385,313	(659,333)
Attributable to:		
Continuing operations	380,075	(659,333)
Discontinued operations (see note 12)	5,238	-
	385,313	**(659,333)**

The Group has unused tax losses amounting to KZT 2,285 thousand available for carry forward against future taxable income. These tax losses will expire annually starting from 2009 to 2012 if not utilized against future taxable income.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

14. Property, Plant and Equipment

	Land	Mine development costs	Buildings and construction	Machinery and production equipment	Vehicles	Other	Construction-in-progress (CIP)	Assets in transit	Total
Cost									
At 1 January 2006	5,778	391,189	612,505	1,331,336	38,178	71,790	176,898	-	2,627,674
Additions	-	15,562	8,181	134,249	8,237	8,060	298,636	-	472,925
Transfers from exploration costs	-	29,409	-	-	-	-	-	-	29,409
Transfers			(9,795)	90,057	-	7,654	(87,916)	-	-
Disposals	-	-	-	(11,565)	-	(9,530)	(6)	-	(21,101)
At 31 December 2006	5,778	436,160	610,891	1,544,077	46,415	77,974	387,612	-	3,108,907
Additions	658	6,800	4,885	479,645	38,445	13,782	3,859,391	336,288	4,739,894
Transfers	-	37,334	74,228	1,248,679	128	(773)	(1,359,596)	-	-
Disposal of subsidiary	(658)	-	(3,144)	(142,817)	(10,952)	(1,548)	(70,897)	-	(230,016)
Disposals	-	-	-	(31,686)	(6,997)	(3,813)	(16,442)	-	(58,938)
At 31 December 2007	**5,778**	**480,294**	**686,860**	**3,097,898**	**67,039**	**85,622**	**2,800,068**	**336,288**	**7,559,847**
Accumulated amortization and depreciation									
At 1 January 2006	-	(22,845)	(99,245)	(336,728)	(8,640)	(11,752)	-	-	(479,210)
Amortization and depreciation charge	-	(9,212)	(44,467)	(190,668)	(4,936)	(11,384)	-	-	(260,667)
Disposals	-	-	366	4,846	-	1,046	-	-	6,258
As at 31 December 2006	-	(32,057)	(143,346)	(522,550)	(13,576)	(22,090)	-	-	(733,619)
Amortization and depreciation charge	-	(14,601)	(46,498)	(278,421)	(4,599)	(10,958)	-	-	(355,077)
Disposal of subsidiary	-	-	16	21,469	-	2,435	-	-	23,920
Disposals	-	-	-	16,499	2,907	3,201	-	-	22,607
At 31 December 2007	-	**(46,658)**	**(189,828)**	**(763,003)**	**(15,268)**	**(27,412)**	-	-	**(1,042,169)**
Net book value									
At 31 December 2006	5,778	404,103	467,545	1,021,527	32,839	55,884	387,612	-	2,375,288
At 31 December 2007	**5,778**	**433,636**	**497,032**	**2,334,895**	**51,771**	**58,210**	**2,800,068**	**336,288**	**6,517,678**

Property, plant and equipment with a net carrying value of KZT 767,033 thousand and KZT 317,952 thousand, as at 31 December 2007 and at 31 December 2006, respectively, have been pledged to secure long-term borrowings from BankTuranAlem (see note 22).

15. Exploration Costs

	31 December 2007	31 December 2006
Opening balance	225,628	229,655
Additions	2,709	25,382
Sale of subsidiary	(48,650)	-
Transfers	-	(29,409)
	179,687	**225,628**

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

16. Prepayments for Long-Term Assets

	31 December 2007	31 December 2006
Prepayments for equipment and machinery	936,676	77,907
Prepayments for consumables and suppliers	543,838	92,622
Less: Provision for prepayments for consumables and suppliers	(19,584)	–
	1,460,930	**107,529**
Classified as:		
Non-current assets	936,676	77,907
Current assets	524,254	92,622
	1,460,930	**107,529**

The Group made prepayments for three ball-mills and lifting equipment for mine and processing plant expansion projects.

17. Inventories

	31 December 2007	31 December 2006
Stores and materials	750,526	451,784
Less: Provision against obsolete inventory	(36,112)	–
	714,414	451,784
Finished goods	151,190	101,605
Work-in-process	132,225	33,542
	997,829	**586,931**

18. Accounts Receivable

	31 December 2007	31 December 2006
Trade accounts receivable	365,342	15,496
Other accounts receivable	42,539	23,268
Less: Provision against doubtful debts	(12,473)	–
	395,408	**38,764**

19. Available-for-Sale Securities

	31 December 2007	31 December 2006
Bonds (see note 30)	254,993	–
Fair value adjustment	(41,645)	–
	213,348	**–**

On 13 March 2007 the Group purchased BankTuranAlem bonds for a consideration of KZT 254,993 thousand. The maturity date of the bonds is 29 June 2036. The Group purchased 25,146 bonds with a coupon rate of 7%. Fair value was determined by reference to market prices at 31 December 2007.

(in KZT thousands)

20. Cash and Cash Equivalents

	31 December 2007	31 December 2006
Restricted cash*	1,774,310	–
Cash in banks, USD denominated	37,205	3,611,182
Cash in banks, KZT denominated†	8,547	5,778
Cash on hand, KZT denominated	3,366	6,224
Cash in banks, KZT denominated	3,712	17,291
Cash in banks, RUB denominated	30	–
Cash and cash equivalents	**1,827,170**	**3,640,475**
Classified as:		
Non-current assets	1,782,857	5,778
Current assets	44,313	3,634,697
	1,827,170	**3,640,475**

Restricted cash balances

* The Group opened a Letter of Credit account for KZT 1,774,310 thousand which is restricted in use for future payments to suppliers.

† Pursuant to the subsurface use contract, the Group is obliged to accumulate cash to meet provision for future site restoration related to obligations to restore and make the mine safe after use and the estimated costs of cleaning up any chemical leakage (see note 23).

21. Partner's Capital

ShalkiyaZinc N.V. holds 100% of partner's capital of the Company. ShalkiyaZinc N.V. has increased the Company's partner's capital from KZT 78 thousand as at 31 December 2006 to KZT 2,882,668 thousand as at 31 December 2007 (see note 30). The Company received KZT 2,882,590 thousand as additional partner's capital by bank transfer on 6 March 2007.

22. Borrowings

USD Denominated Borrowings due to Parent Company

	31 December 2007	31 December 2006
Opening balance	**9,273,204**	**9,343,270**
Proceeds received during the year	302,350	–
Interest charged for the year (see note 11)	248,850	2,204
Less: amount repaid	(2,845,331)	–
Foreign exchange gain	(412,386)	(72,270)
Closing balance	**6,566,687**	**9,273,204**
Less: current portion shown under current liabilities	(309,070)	(2,923,204)
Non-current portion	**6,257,617**	**6,350,000**

Summary of Parent Company Borrowing Arrangements

Borrowings from the parent company are unsecured and repayment is subordinated to rights of other creditors. Interest is payable on certain of the loans amounting to USD 1,268 thousand based upon the pre-tax profit "profit linking feature" earned by the Company. The effective interest rate applicable to the borrowings has been estimated to be 9.75%. The loans are repayable in 2061.

A loan with for the amount of USD 2,500 thousand bears an annual interest rate of 12% and has a duration of nine (9) months and therefore should be repaid (including accrued interest) no later than 1 August 2008.

(in KZT thousands)

22. Borrowings continued

	31 December 2007	31 December 2006
KZT denominated borrowings due to BankTuranAlem		
Opening balance	**-**	**8,456,398**
Proceeds received during the year	-	90,000
Interest charged for the year (see note 11)	573	741,200
	-	9,287,598
Less: amount repaid	-	(9,287,598)
Closing balance – current liability	**573**	**-**
USD denominated borrowings due to BankTuranAlem		
Opening balance	**317,952**	**1,467,352**
Proceeds received during the year	1,013,928	4,934
Interest charged for the year (see note 11)	31,938	113,800
Foreign exchange gain	(19,466)	(66,423)
	1,344,352	1,519,663
Less: amount repaid	(126,314)	(1,201,711)
Closing balance	**1,218,038**	**317,952**
Less: current portion shown under current liabilities	(711,648)	(115,530)
Non-current portion	**506,390**	**202,422**
Euro denominated borrowings due to BankTuranAlem		
Opening balance	-	-
Proceeds received during the year	1,586,752	-
Interest charged for the year (see note 11)	41,647	-
Foreign exchange loss	104,748	-
	1,733,147	
Less: amount repaid	-	-
Closing balance	**1,733,147**	**-**
Less: current portion shown under current liabilities	(42,273)	-
Non-current portion	**1,690,874**	**-**
Rouble denominated borrowings due to BankTuranAlem		
Opening balance	-	-
Proceeds received during the year	83,848	-
Capitalized interest for qualifying assets	220	-
Foreign exchange gain	(464)	-
	83,604	
Less: amount repaid	-	-
Closing balance	**83,604**	**-**
Less: current portion shown under current liabilities	(220)	-
Non-current portion	**83,384**	**-**

The borrowings due to BankTuranAlem are secured by a charge over the Group's property, plant and equipment and investments in securities (see notes 14, 19) and bear interest at rates ranging from 12% per annum to LIBOR plus 8%. These borrowings have maturity dates ranging from 3 June 2009 to 30 December 2013 as follows:

Within one year	754,714	115,530
Within 2-5 years	2,280,648	202,422
	3,035,362	**317,952**

(in KZT thousands)

23. Provision for Future Site Restoration

	31 December 2007	31 December 2006
Opening balance	**256,325**	**249,993**
Unwinding of discount at 12% (see note 11)	13,274	6,332
Closing balance	**269,599**	**256,325**
Restricted cash on special deposit (see note 20)	8,547	5,778
Unfunded portion of the provision	**261,052**	**250,547**

The provision for future site restoration relates to the contractual obligations contained in the Shalkiya Subsurface Use Contract to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage. The majority of these costs are expected to be incurred towards the end of the life of the mine. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the estimated life of the mines, the scale of any possible contamination and the timing and extent of corrective actions. The following are the key assumptions on which the discounted carrying amount of the obligation is based:
- The total undiscounted amount of estimated future cash expenditure to be incurred is KZT 20,520,436 thousand (or KZT 1,180,000 thousand in 2007 prices).
- The expected timing of the majority of the future cash expenditure is expected to take place at the end of the Shalkiya Subsurface Use Contract in 2046.
- The inflation rate is 8% per annum.
- The discount rate applied is 12% per annum.

The Group is obliged by the terms of the Subsurface Use Contract to accumulate cash in a special bank account calculated as 1% of operating cost per annum to fund the provision for future site restoration over the life of the mine.

24. Due to the Republic of Kazakhstan

	31 December 2007	31 December 2006
Opening balance	217,921	204,944
Foreign exchange gain	(11,497)	-
Unwinding of discount at 12% (see note 11)	22,889	12,977
	229,313	**217,921**

The Group accrued the discounted carrying amount of its obligation to reimburse the Government of Kazakhstan for the historical cost of geological studies performed in respect of the Talap Deposit.

The following is a summary of the key assumptions on which the discounted carrying amount of the obligation is based:
- The total undiscounted amount of historical costs outlined in the Talap Subsurface Use Contract is KZT 509,327 thousand (USD 3,809,481).
- The reimbursement of the obligation is expected to occur in 40 equal, quarterly instalments, commencing on 1 January 2009 and ending on 31 December 2018.
- The discount rate applied is 12% per annum.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

25. Deferred Taxation

	31 December 2007	31 December 2006
Deferred tax assets arising from:		
Temporary differences:		
Differences in carrying values of property, plant and equipment	–	49,428
Accrued expenses	3,368	–
Accrued taxes	7,494	–
Change in estimate	10,849	70,963
Provision against obsolete inventory	10,834	–
Provision for unused vacation	9,139	–
Provision against prepayments	5,875	–
Provision against doubtful debts	3,742	–
Other	4,872	–
	56,173	120,391
Tax losses available for carry forward	685,484	590,617
Provision for impairment	(244,140)	–
	441,344	590,617
Total deferred tax assets	497,517	711,008
Deferred tax liabilities arising from:		
Capitalized costs	(55,514)	(51,675)
Unrealised foreign exchange gain	(93,240)	–
Intercompany loan	(33,858)	–
Differences in carrying values of property, plant and equipment	(40,885)	–
	(223,497)	(51,675)
Deferred tax assets, net	**274,020**	**659,333**

The Group has recognized a deferred tax asset related to Kazakhstani tax losses which are available for carry forward to future periods. The Group did not utilize any tax losses in the year ended 31 December 2007 as there is a taxable loss for that year.

26. Trade Accounts Payable

	31 December 2007	31 December 2006
Trade accounts payable for equipment and materials	592,204	38,164
Trade accounts payable for services	508,672	9,541
	1,100,876	**47,705**

27. Taxes Payable

	31 December 2007	31 December 2006
Social tax payable	12,894	12,455
Royalty payable	4,779	2,664
Withholding income tax payable	278	7,301
Other taxes payable	7,027	2,473
	24,978	**24,893**

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

28. Other Current Liabilities

	31 December 2007	31 December 2006
Accrued expenses	665,582	-
Payroll payable	64,266	4,257
Pension fund payable	8,582	4,683
Rent payable	1,285	2,682
Other payables	22,528	12,208
	762,243	**23,830**

The Group has accrued liabilities for the amount of KZT 654,354 thousand for construction of skip tower-type headgear, basic engineering design and construction of ball-mills.

29. Disposal of Subsidiary

During the year ended 31 December 2007 the Group disposed of its wholly-owned subsidiary, Shakkinskiy Shebenoshniy Zavod (Stone Crushing Plant). Details of the disposal are as follows:

	31 December 2007
Book value of net assets sold	
Non-current assets	
Property, plant and equipment	206,095
Exploration costs	48,650
Current assets	
Cash and cash equivalents	22,492
Trade accounts receivable	11,769
Prepayments to suppliers	433,139
VAT receivable	23,554
Inventories	31,162
Current liabilities	
Trade accounts payable	(601,354)
Taxes payable	(772)
Other current liabilities	(157,424)
Net assets disposed	17,311
Gain on disposal	31,431
Consideration received in cash and cash equivalents	**48,742**
Consideration received in cash and cash equivalents	48,742
Less: cash and cash equivalent balances disposed of subsidiary	(22,492)
Net cash inflow on disposal	**26,250**

30. Related Party Transactions

Related party disclosures – Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parties of the Group that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals (partners) owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises, in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major owners of the Group and enterprises that have a member of key management in common with the Group.

Borrowings from related parties – During the year ended 31 December 2007 the Group had material transactions with BankTuranAlem of which Zhaksylysk Zharimbetov (member of the Group's Supervisory Board) is a member of the Board of Directors. The Group has borrowings from BankTuranAlem (see note 22). Interest on BankTuranAlem borrowings of KZT 74,378 thousand was accrued during the year ended 31 December 2007 (2006: KZT 113,800 thousand).

The Company received a guarantee from BankTuranAlem of KZT 64,000 thousand for customs payments. The bank's fee for this guarantee was KZT 573 thousand.

The Group has borrowings from ShalkiyaZinc N.V., the parent company (see note 22). During the year ended 31 December 2007 the Group accrued interest on these loans of KZT 160,947 thousand (2006: KZT 2,204 thousand).

Contribution to capital – During the year ended 31 December 2007, ShalkiyaZinc N.V. increased partner's capital from KZT 78,000 to KZT 2,882,668 thousand (see note 21).

Available-for-sale securities – During the year ended 31 December 2007 the Group purchased bonds from BankTuranAlem for a consideration of KZT 254,993 thousand (see note 19).

Deposits – During the year ended 31 December 2007 the Group held deposits in BankTuranAlem of KZT 97,848 thousand and earned interest of KZT 21,204 thousand for the year ended 31 December 2007.

Sale of subsidiary – During the year ended 31 December 2007 the Group disposed of its wholly-owned subsidiary (see note 29). This asset was a non-core operation. 40% of shares of the subsidiary were sold to "Polymetall Resources" Ltd which is owned by General Director Marat Sarkytbayev (80%) and Business Development Director Samat Kazymov (20%), executive officers of the Group.

Trade payable to ShalkiyaZinc N.V. – At 31 December 2007 the Group had an amount payable to ShalkiyaZinc N.V. in amount of KZT 23,143 thousand for consultancy services (2006: nil).

Compensation of key management personnel – Related parties include partner, key management personnel, affiliates and entities under common ownership, over which the Group has the ability to exercise significant influence.

Included in other current liabilities as at 31 December 2007 is an amount due to the General Director of KZT 367 thousand (2006: KZT 5,849 thousand in other accounts receivable).

The total number of key management personnel as at 31 December 2007 is seven persons (2006: five). The total compensation paid to key management personnel amounted to KZT 157,629 thousand for the year ended 31 December 2007 (2006: KZT 81,329 thousand).

31. Pensions and Retirement Plans
In accordance with the law of the Republic of Kazakhstan "Pension provisioning in the Republic of Kazakhstan" effective from 1 January 1998 and replacing the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulations accounts fund provided by the compulsory pension contributions of 10% from an employees' income. The maximum statutory limit on these contributions of approximately KZT 73,140 in the year ended 31 December 2007 (2006: KZT 69,000).

During the year ended 31 December 2007 compulsory pension contributions to the accumulated pension funds of KZT 77,497 thousand (2006: KZT 35,046 thousand) were charged to the consolidated income statement as part of payroll expense.

As at 31 December 2007 the Group was not liable for any supplemental, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

32. Commitments and Contingencies
Capital commitments and contractual liabilities – At 31 December 2007 the Group had awarded contracts for capital expenditure in amounts of USD 77,057 thousand of which USD 49,937 thousand was paid to suppliers as at 31 December 2007.

Subsurface use contract – Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 1.00% of operating costs. The Group spent KZT 3,003 thousand against the obligation KZT 1,830 thousand for the year ended 31 December 2007.

Liquidation fund – Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account in an amount of not less than 1.00% of operating costs to meet provision for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account in an amount of not less than 1.00% of exploration and operating costs (capped at USD 7,767,000) to meet provision for future site restoration related to obligations to restore and make mines safe after use and the estimated costs of cleaning up any chemical leakage.

The Group's management believes they are in compliance with the commitments set forth in the Shalkiya and Talap Subsurface Use Contracts. However, such compliance may be questioned by the relevant authorities whose interpretation may differ from the Group's.

Insurance – The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in development markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. As of 31 December 2007 the Group has in place all insurance programmes in compliance with the Subsurface Use Contract.

Taxation – Tax laws in the Republic of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to the business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to be reviewed by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequate for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

Environmental matters – The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that full compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist. As of 31 December 2007 the Group spent KZT 2,125 thousand for monitoring of the environment.

Court proceeding – The Group is a defendant in a legal action involving alleged environmental pollution in amount of KZT 392,939 thousand. Management believes, based on legal advice, that the action can be successfully defended and therefore no losses will be incurred.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in KZT thousands)

33. Financial Instruments

Major Categories of Financial Instruments

The Group's principal financial liabilities comprise loans and borrowings, trade payables and provisions and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various financial assets such as trade receivables, derivative instruments, available-for-sale financial securities and cash and cash equivalents.

Categories of Financial Instruments

	31 December 2007	31 December 2006
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,232,457	4,266,587
Available-for-sale financial assets	213,348	-
Derivative instrument	201,031	-
Financial liabilities		
Amortized cost	11,719,459	10,161,830

Risk Management Objectives

Exposure to market, credit, interest and currency risk arises in the normal course of the Group's business. Derivative financial instruments are not used to reduce exposure to risks.

Concentration of business risk – During the year ended 31 December 2007, the Group's sources of revenue resulted mainly from sales of products to Cheriton Finance (UK) and Boertala Mongolian Automous Prefekture – 84% (2006: 93%) and 7% (2006: 1%) of total sales, respectively.

Commodity price risk – The Group is exposed to fluctuations in zinc and lead product prices as a result of market conditions and changes in commodity prices on the London Metal Exchange. The Group does not hedge its commodity price risk.

Credit risk – Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As at 31 December 2007, the Group believes that its maximum exposure to credit risk relates to its accounts receivable, prepayments and advances made as reflected by their carrying values.

Foreign currency risk – The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group does not hedge its foreign currency risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Currency				
USD	6,865,633	6,660,503	327,202	3,606,737
EUR	1,733,147	-	1,690,874	-
RUB	83,604	1	83,354	-
Total	**8,682,384**	**6,660,504**	**2,101,430**	**3,606,737**

(in KZT thousands)

33. Financial Instruments continued

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to the currency fluctuations in USD and EUR.

The following table details the Group's sensitivity to a 10% increase and decrease in the tenge against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans. A positive number below indicates an increase in profit where the tenge strengthens 10% against the relevant currency. For a 10% weakening of Kazakhstani tenge against the relevant currency, there would be an equal and opposite impact on profit, and the balances below would be negative.

The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	US dollar impact		Euro impact		Rouble impact	
	2007	2006	**2007**	2006	**2007**	2006
Profit or (loss)	653,843	305,377	4,227	–	25	–

The Group's sensitivity to foreign currency has increased during the current period mainly due to the increase in USD denominated loans.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year-end exposure does not reflect the exposure during the year.

Interest Rate Risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure.

Interest Rate Risk Management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group does not hedge its interest rate risks.

Interest Rate Sensitivity Analysis

The sensitivity analyses have been determined based on the exposure to interest rates at the balance sheet date. A 1% increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant the Group's profit for the year ended 31 December 2007 would decrease by KZT 1,946 thousand (2006: decrease by KZT 2,998 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Operational risk – Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In accordance with the Subsoil Use Contracts, the Group is obliged to carry insurance against accidents during production and occupational diseases to its employees. As at 31 December 2007 the cost of this insurance was KZT 1,787 thousand.

As at 31 December 2007, the Group believes it had sufficient insurance policies in force in respect of public liability (see note 31).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Group's short-, medium- and long-term funding. The Group manages liquidity risk by banking facilities by continuously monitoring forecast and actual cash flows.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

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33. Financial Instruments continued

Liquidity and interest risk tables – The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2007	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing	–	285,961	670,922	40,757	894,958	–	1,892,598
Variable interest rate instruments							
Borrowing due to BankTuranAlem	12.02%	–	3,850	–	191,805	–	195,655
Borrowing from parent company	9.75%	–	405,968	–	–	5,851,649	6,257,617
Fixed interest rate instruments							
Borrowing due to BankTuranAlem	12%	–	54,988	–	2,784,719	–	2,839,707
Borrowing from parent company	12%	–	–	309,070	–	–	309,070

2006	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing		3,938	92,490	–	–	–	96,428
Variable interest rate instruments							
Borrowing due to BankTuranAlem	11.20%	–	21,550	102,559	193,843	–	317,952
Borrowing from parent company	9.75%	–	2,204	–	6,347,796	–	6,350,000

The following tables detail the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturity of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

2007	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing	–	364,317	5,933	487,108	547,929	–	1,405,287
Fixed interest rate instruments							
Available-for-sale securities	7%	7,480	–	205,868	–	–	213,348

2006	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing	–	38,764	92,622	338,349	78,318	–	548,053

34. Events Subsequent to the Balance Sheet Date

The Company entered into a new credit line with BankTuranAlem for USD 38.5 million in 2007. During 2007 the Company drew down KZT 2.685 billion (approximately USD 25 million) from this facility. During March 2008, the Company drew down a further amount of KZT 603.64 million (approximately USD 5 million).The Company has utilized these amounts for working capital and capital expenditure requirements. There remains an undrawn balance in the BankTuranAlem facility of USD 8.5 million. The Company estimates that this undrawn balance of USD 8.5 million will be sufficient for working capital and capital expenditure requirements for the completion of the Stage 1 development during which time the Company's operations shall become cash flow positive.

This borrowing is secured by a charge over the Group's property, plant and equipment and bears interest at a rate of 16% per annum. This borrowing has a maturity date of 30 December 2013.

SHALKIYAZINC N.V.
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	31 December 2007	31 December 2006
EXCHANGE RATES – KAZAKHSTANI TENGE		
Period-end rates		
1 US dollar	**120.30**	**127.00**
Average rates for the period		
1 US dollar	**122.09**	**126.10**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2007

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of ShalkiyaZinc N.V. and its subsidiary (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2007 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:
- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:
- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group complies with IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were approved by the Board of Directors and authorized for issue on 11 June 2008.

Signed on behalf of the Board

Marat Sarkytbayev
Chairman of the Management Board
ShalkiyaZinc N.V.

REPORT ON AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

To the Supervisory Board and Shareholders of ShalkiyaZinc N.V., Rotterdam, the Netherlands

Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements 2007 of ShalkiyaZinc N.V., Rotterdam as included on the pages 65 up to and including 97 of this Annual Report. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprize the consolidated balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprize the company balance sheet as at 31 December 2007, the company profit and loss account for the year then ended and the notes.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Management Board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with Respect to the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ShalkiyaZinc N.V. as at 31 December 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with Respect to the Company Financial Statements

In our opinion, the company financial statements give a true and fair view of the financial position of ShalkiyaZinc N.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Management Board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.

Signed by: **K.L. van Dorp**
Amsterdam, the Netherlands
11 June 2008

SHALKIYAZINC N.V.
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

(in USD thousands)

	Notes	2007	06.11.06-31.12.06
Continuing operations			
Revenue	6	**30,300**	**3,420**
Cost of sales	7	(21,438)	(1,596)
Gross profit		**8,862**	**1,824**
Interest income	11	441	93
Interest expense	11	(563)	(317)
Other gains and losses	12	(1,048)	386
General and administrative expenses	9	(6,833)	(813)
Distribution costs	10	(769)	(59)
Other expenses		(102)	(122)
Profit/(loss) before tax from continued operations		**(12)**	**992**
Income tax	14	(3,113)	-
Profit/(loss) from continued operations		**(3,125)**	**992**
Discontinued operations			
Profit from the discontinued operations	13	100	2
Profit/(loss) for the period		**(3,025)**	**994**
Attributable to equity holders of the Company			
Basic and diluted (loss)/profit per share from continuing operations, US cents	22	(55.3)	0.18
Basic and diluted profit per share from discontinued operations, US cents	22	1.8	0.04

SHALKIYAZINC N.V.
CONSOLIDATED BALANCE SHEET
As at 31 December 2007 (after proposed appropriation result)

(in USD thousands)

	Notes	2007	2006
Assets			
Non-current assets			
Property, plant and equipment	15	54,179	18,703
Exploration costs	16	1,494	1,777
Long-term portion of VAT receivable		4,459	618
Prepayments for long-term assets	17	7,786	613
Restricted cash	21	14,820	45
Deferred tax assets, net	31	2,278	5,192
Total non-current assets		**85,016**	**26,948**
Current assets			
Short-term portion of VAT receivable		3,936	3,311
Inventories	19	8,295	4,622
Trade accounts receivable	18	2,933	122
Other accounts receivable		354	217
Prepayments to suppliers	17	4,358	729
Securities held for sale	20	1,773	-
Cash and cash equivalents	21	1,518	34,526
Total current assets		**23,167**	**43,527**
		108,183	**70,475**
Equity and liabilities			
Equity attributable to shareholders			
Share capital		83	73
Share premium		61,355	61,355
Legal reserves	30	3,103	(113)
Equity settled employee benefits reserve		165	64
Retained earnings		(2,031)	994
Total equity		**62,675**	**62,373**
Non-current liabilities			
Long-term borrowings due to BankTuranAlem	23	18,958	1,594
Provision for future site restoration	24	2,241	2,018
Due to the Republic of Kazakhstan	25	1,906	1,716
Total non-current liabilities		**23,105**	**5,328**
Current liabilities			
Current portion of long-term borrowings due to BankTuranAlem	23	6,274	910
Trade accounts payable	26	9,066	376
Accrued fees		185	873
Taxes payable		216	196
Advances received		326	31
Other current liabilities	27	6,336	388
Total current liabilities		**22,403**	**2,774**
Total equity and liabilities		**108,183**	**70,475**

SHALKIYAZINC N.V.
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

(in USD thousands)

	Notes	2007	2006
Operating activities			
Profit/(loss) for the year		(3,025)	994
Movement in deferred tax asset		3,156	-
Amortization and depreciation charge	15	2,908	135
Equity settlement	30	101	-
Loss on disposal of property, plant and equipment		52	145
Gain on disposal of subsidiary		(257)	-
Finance costs	11	563	317
Foreign exchange gain		242	(255)
		3,740	**1,336**
Movements in working capital			
Increase in trade accounts receivable		(2,288)	(3,650)
Increase in other receivables		(5,184)	(729)
Increase in inventories		(3,936)	(4,622)
Increase in trade and other accounts payable		13,213	572
Transfer from subsidiary		-	11,387
Increase in prepayments to suppliers		(7,555)	-
Increase in other current liabilities		7,457	419
Net cash inflow from operations		5,447	4,713
Interest paid	23	(255)	(3,038)
Net cash inflow from operating activities		**5,192**	**1,675**
Investing activities			
Purchase of property, plant and equipment		(46,148)	(932)
Increase in exploration costs		(121)	-
Consideration from disposal of subsidiary		218	-
Restricted cash investment		(14,775)	(45)
Increase in investments in securities	20	(2,120)	-
Proceeds from disposal of property, plant and equipment		250	-
Net cash outflow from investing activities		**(62,696)**	**(977)**
Financing activities			
Principal payments on borrowings	23	(795)	(44,212)
IPO proceeds, net		-	77,982
Exchange difference on intercompany loan adjusted to equity		3,384	-
Increase in borrowings due to BankTuranAlem	23	22,315	-
Net cash inflow from financing activities		**24,904**	**33,770**
Net decrease in cash and cash equivalents		**(32,600)**	**34,468**
Cash and cash equivalents, beginning of the period	21	**34,526**	**58**
Effect of exchange rate changes		**(408)**	**-**
Cash and cash equivalents, end of the period	21	**1,518**	**34,526**

SHALKIYAZINC N.V.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

(in USD thousands)

	Notes	Share capital	Share premium	Legal reserves	Equity settled employee benefits reserve	Retained earnings	Total
As at 6 November 2006		**58**	**–**		**–**	**–**	**58**
Translation differences	29	–	–	(113)	–	–	(113)
Acquisition of the subsidiary/goodwill		–	(15,675)	–	–	–	(15,675)
Net expense recognized directly in equity		–	(15,675)	(113)	–	–	(15,788)
Profit for the year		–	–	–	–	994	994
Total recognized income and expense		**–**	**(15,675)**	**(113)**	**–**	**994**	**(14,794)**
Shares issued in the period		15	83,360	–	–	–	83,375
Share issue costs		–	(6,330)	–	–	–	(6,330)
Recognition of share-based payments	30	–	–	–	64	–	64
Balance as at 31 December 2006		**73**	**61,355**	**(113)**	**64**	**994**	**62,373**
Translation differences	29	10	–	3,563	–	–	3,573
Change in available-for-sale investments	29	–	–	(347)	–	–	(347)
Net expense recognized directly in equity		**10**	**–**	**3,216**	**–**	**–**	**3,226**
Profit for the year		–	–	–	–	(3,025)	(3,025)
Total recognized income and expense		**10**	**–**	**3,216**	**–**	**(3,025)**	**201**
Recognition of share-based payments	30	–	–	–	101	–	101
Balance as at 31 December 2007		**83**	**61,355**	**3,103**	**165**	**(2,031)**	**62,675**

Statutory Provisions with Respect to Appropriation of Results
According to the Company's Articles of Association, the Company's reserves may be distributed to shareholders, provided that total shareholders' equity exceeds the called-up and paid-up capital of the Company, increased by legal and statutory reserves.

Legal Reserves
Legal reserves are non-distributable reserves that have been recorded for the amount of the change in available-for-sale investments and cumulative translation adjustments.

Equity Settled Employee Benefits Reserve
The equity settled employee benefits reserve represents the cumulative expense of issued share options that have been granted but not exercized.

SHALKIYAZINC N.V.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2007

1. Nature of the Business
ShalkiyaZinc N.V. (the "Company" or "ShalkiyaZinc N.V."), a public limited liability company was incorporated on 6 November 2006 under the laws of the Netherlands. The address of its registered office is Martinus Nijhofflaan 2,2624 ES Delft, the Netherlands. The authorized share capital of ShalkiyaZinc N.V. is EUR 225,000, divided into 22,500,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 56,500 divided into 5,650,000 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 83,219 at an exchange rate of USD 1.4729.

On 20 November 2006, Denmar Asset Management Inc. BVI, LLP Polymetall Resources and LLP Agroneft sold their respective interests in ShalkiyaZinc Ltd. (the "Subsidiary", or "LLP Shalkiya Zinc Ltd.") to the Company. The Company became the sole shareholder of the Subsidiary on that date.

The Company became listed on 14 December 2006 at the London Stock Exchange by issuing Global Depository Receipts (GDRs). Ten GDRs represent one share in the Company.

After Initial Public Offering on 14 December at the London Stock Exchange the ultimate beneficial shareholders became:
- Kazakh individuals:
  - Rifat Rizoyev (49.88%);
  - Assylbek Abuov (11.17%); and
  - Marat Sarkytbayev and Samat Kazymov jointly (13.40%).
- Public (25.55%).

The principal activity of LLP Shalkiya Zinc Ltd., the subsidiary of the Company, as at 31 December 2007 is exploration, extraction and processing of complex lead-zinc ore.

The Subsidiary was incorporated in April 2001 in Almaty, Republic of Kazakhstan. The Subsidiary's activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Subsidiary dated 31 May 2002 for the extraction of complex ore in the Shalkiya field from 2002 to 2046. The Group's main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda oblast of the Republic of Kazakhstan. The Subsidiary operates the Shalkiya mine and the Kentau concentrator. The main products are zinc and lead concentrates.

The Subsidiary's business development features the following main stages:
- 1st stage – 2001–2003: Acquisition, repair and rehabilitation of the assets.
- 2nd stage – 2004–2006: Commencement of production at the Kentau concentrator.

In November 2004, the Subsidiary entered into a Subsurface Use Contract with Kyzyl-Orda Regional Department of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration of dolomite in the Ogizmuiz field. The exploration contract expires in November 2007 and the extraction period is to 2024.

In December 2004, the Subsidiary entered into a Subsurface Use Contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field. The exploration period is two years and the extraction period is 18 years.

The number of employees of the Subsidiary as at 31 December 2007 was 1,163. Total staff costs for the period ended 31 December 2007 were USD 2,453 thousand.

2. Basis of Presentation
(a) Statement of Compliance
The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The accompanying consolidated financial statements were prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments. The principle accounting policies are set out below.

2. Basis of Presentation continued

(b) Group Reorganization

On 22 November 2006, the Company acquired the 100% interest in the Subsidiary from Denmar Asset Management Inc. BVI, LLP Polymetall Resources and LLP Agroneft for a total consideration of USD 610 which was paid in cash by the Company to the former shareholders of the Subsidiary.

As the entities were under common control, the acquisition was accounted for at carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Company. Upon consolidation this results in a "Goodwill" being deducted from the share premium, as the consideration paid for the acquisition of the Subsidiary is higher than the negative net equity of the Subsidiary.

(c) Going Concern

The consolidated financial statements are prepared on a going-concern basis.

(d) Measurement and Presentation Currency

The functional currency of the accompanying consolidated financial statements is the Kazakhstani tenge. The tenge is not a fully convertible currency outside of the territory of the Republic of Kazakhstan. The translation of tenge denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated values of these assets and liabilities.

The Group has chosen to present its consolidated financial statements in USD. In translating the financial information of a foreign subsidiary into the presentation currency for incorporation in the consolidated financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are done:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate.
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions.
- All resulting exchange differences are classified as equity.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. Adoption of New and Revized International Financial Reporting Standards

In the current year the Group has adopted all of the new and revized Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007.

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1.

Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments (see note 33).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; and IFRIC 10 "Interim Financial Reporting and Impairment". The adoption of these Interpretations has not led to any significant changes in the Group's accounting policies.

3. Adoption of New and Revized International Financial Reporting Standards continued
At the date of authorization of these financial statements the following Standards and Interpretations were in issue but not yet effective:

New Standards:	
IFRS 8 "Operating Segments"	Effective for annual periods beginning on or after 1 January 2009
Amendments to Standards:	
IAS 23 "Borrowing Costs"	Effective for annual periods beginning on or after 1 January 2009
IAS 1 "Presentation of Financial Statements"	Effective for annual periods beginning on or after 1 January 2009
IAS 27 "Consolidated and Separate Financial Statements"	Effective for annual periods beginning on or after 1 July 2009
IAS 31 "Interests in Joint Ventures"	Effective for annual periods beginning on or after 1 July 2009
IFRS 3 "Business Combinations"	Effective for annual periods beginning on or after 1 July 2009
New Interpretations:	
IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"	Effective for annual periods beginning on or after 1 March 2007
IFRIC 12 "Service Concession Arrangements"	Effective for annual periods beginning on or after 1 January 2008
IFRIC 13 "Customer Loyalty Programmes"	Effective for annual periods beginning on or after 1 January 2008
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction"	Effective for annual periods beginning on or after 1 January 2008

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group in the period of initial application.

4. Significant Accounting Policies
(a) Basis of Consolidation
The consolidated financial statements incorporate the financial information of the Company and other enterprizes, where the Company, directly or indirectly, exercizes control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprize so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used by them into line with those used by the Company.

On acquisition, not being under common control, the assets and liabilities of a subsidiary are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

On acquisition, under common control, the assets and liabilities of a subsidiary are transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of acquisition or up to the effective date of disposal, as appropriate. New acquired companies are included in the consolidated income statement as of the first month after the date of acquisition.

All significant inter-company transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation.

(b) Property, Plant and Equipment
Property, plant and equipment are carried at their historical cost less any accumulated depreciation. Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated income statement as incurred.

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision is made to proceed with the development, development and other expenditures relating to the project are capitalized and carried at cost with the intention that these will be amortized by charges against earnings from future mining operations. Development assets are measured at cost. Upon commencement of production, exploration and development costs are amortized over the life of the mine, which is estimated at a maximum of 25 years.

4. Significant Accounting Policies continued
Amortization of assets under construction commences when the assets are brought into commercial production. Amortization and depreciation are charged so as to write off the cost of assets, other than assets under construction and land, over the life of the mine by using the units of production method or over the estimated useful lives of the assets using the straight-line method, on the following basis:

Capitalized mine development costs	25 years
Buildings and constructions	10-20 years
Other property, plant and equipment	8-10 years
Vehicles	7-9 years
Machinery and equipment	6-7 years

Gains and losses on property, plant and equipment disposals are calculated as the difference between the selling price and the carrying amount of the asset, and included in other income/(expense) in the accompanying consolidated income statement.

(c) Exploration Costs
Expenditures related to the following activities are initially measured at cost and capitalized as exploration assets: acquisition of rights to explore; topographical, geological, geochemical and geophysical studies; exploratory drilling; trenching; sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

The decision to develop a mine property within a project area is based on the exploration and evaluation results, an assessment of the commercial viability of the property and the availability of financing. Once a decision to proceed with the development is made, capitalized exploration and evaluation expenditures relating to the project are transferred to capital construction-in-progress as part of the development cost of the mine property.

Expenditures not included in the initial measurement of exploration assets are: development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established and administration and other general overhead costs. Exploration assets are measured at cost.

(d) Impairment
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell or value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revized estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

(e) Inventories
Finished Goods – Finished goods are measured at the lower of net production cost or net realizable value per unit. The net cost of production per unit of a product is determined by dividing total production cost, allocated in the ratio of the contribution of these products to total relative sales value, by the saleable mine output of a product.

Work-in-process – Work-in-process is valued at the net unit cost of production based on the percentage of completion method.

Stores and Materials – Stores and materials, which consist of consumable stores and materials, are valued at the weighted average cost less a provision for obsolete items.

(f) Provisions
Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

4. Significant Accounting Policies continued

(g) Financial Instruments

Financial instruments recognized on the consolidated balance sheet include other investments, trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit and loss.

The subsequent measurement of financial instruments is dealt with below.

A financial asset is derecognized when the right to receive cash flows from the asset has expired or the Group has transferred its rights to receive cash and either, (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in the consolidated income statement.

On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid for is included in the consolidated income statement.

(i) Trade Accounts Receivable
Trade accounts receivable are measured on initial recognition at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowance reflects either specific cases or estimates based on evidence of recoverability.

(ii) Other Accounts Receivable
Other accounts receivable comprize assets with an expected maturity of up to one year and are stated at their nominal value.

(iii) Cash and Cash Equivalents
Cash includes cash on hand and cash with banks. Cash equivalents include all highly liquid investments readily convertible into a certain amount of cash with a maturity date at the date of acquisition of less than three months.

(iv) Short-term Investments Held-for-Sale
Short-term investments held-for-sale are recognized initially at fair value plus transaction costs directly attributable to the acquisition. Changes in value of an available-for-sale financial asset are subsequently recognized directly in equity, except for an impairment loss. Once the investments are derecognized, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement.

(h) Financial Liabilities

Financial liabilities, including interest-bearing borrowings and trade and other payables are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortized cost using the effective interest method.

Non-interest bearing borrowings are recorded the same as interest-bearing borrowings, except that the difference between the estimated fair value and amount lent is recorded as an equity distribution for related party transactions.

(i) Accounts Payable
Accounts payable are stated at their nominal value.

(ii) Long-term Borrowings
Borrowing costs are recognized as an expense in the period in which they are incurred.

(iii) Retirement and Other Employee Benefit Obligations
The Group does not have any pension arrangements other than the state pension system of the Republic of Kazakhstan, which requires contributions by the employee calculated as a percentage of current gross salary payments. Such contributions are charged in the same period that the related salaries are earned and expensed in the income statement.

(iv) Offset of Financial Assets and Liabilities
Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to offset the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. Significant Accounting Policies continued

(v) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(vi) Royalty

Royalty expenses are accounted for on an accrual basis based on production and are recognized in the income statement as and when incurred.

(i) Revenue Recognized

Revenue is recognized when legal title, and all the risks and benefits associated with the ownership of goods, are passed to the customers, and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and Value Added Tax ("VAT").

(j) Share-Based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercize restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognized at the current fair value determined at each balance sheet date.

(k) Taxation

Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan and the Netherlands. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to offset the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

(l) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial information but disclosed when an inflow of economic benefits is probable.

(m) Foreign Currency Translation

Transactions in currencies other than the USD are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All translation differences are included in the consolidated income statement for the period, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the cumulative translation reserve and recognized in the profit and loss on disposal of the net investment.

(n) Provision for Future Site Restoration

Provision for future site restoration is recognized based upon the estimated fair value of probable legal or constructive obligations associated with dismantlement and site restoration due to the retirement of tangible long-lived assets. Estimated future site restoration obligations are discounted to estimate the fair value of the obligation and recorded as a liability when the related assets are constructed and commissioned. The provision is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

4. Significant Accounting Policies continued

(o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(p) Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. Derivative assets or liabilities are presented as non-current as they are not expected to be realized or settled within 12 months.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revized if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Entity's Accounting Policies

In the process of applying the entity's accounting policies, which are described in Note 3, management has made the following judgements that have the most significant effect on the amounts recognized in the financial information:

Useful Economic Lives of Property, Plant and Equipment – The Group's mining and non-mining property, plant and equipment are depreciated on a straight-line basis over their useful economic lives or life of mine whichever is shorter. Management periodically reviews the appropriateness of the useful economic lives of the assets. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Provision for Mine Abandonment and Site Restoration – The Group's mining activities are subject to various laws and regulations governing the protection of the environment. The Group estimates the provision for mine abandonment and site restoration obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for mine abandonment and site restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Impairment of Assets – The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment of impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash generating units and in estimating the timing and value of the underlying cash flows within the value in use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Contingencies – By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercize of significant judgement and estimates of the outcome of future events.

Deferred Income Tax Asset – Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgements based on expected future performance.

Fair Value of Derivatives –The fair value of derivatives is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for valuation of derivatives that are not traded in active markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

6. Revenue

	2007	06.11.06-31.12.06
Revenue from sales of zinc concentrate	27,876	3,254
Revenue from sales of lead concentrate	2,424	166
Revenue from sales of crushed stones	659	10
Total	**30,959**	**3,430**
Attributable to:		
Continued operations	30,300	3,420
Discontinued operations	659	10
Total	**30,959**	**3,430**

7. Cost of Sales

	2007	06.11.06-31.12.06
On-mine and concentrating costs (see note 8)	15,829	1,035
Ore transportation expenses	4,268	203
Other expenses (including royalty)	379	62
Cash operating cost	**20,476**	**1,300**
Amortization and depreciation of operating assets (see note 15)	2,627	131
Total cost of production	**23,103**	**1,431**
Change in finished goods and work-in-progress (see note 19)	(1,214)	170
Total	**21,889**	**1,601**
Attributable to:		
Continued operations	21,438	1,596
Discontinued operations	451	5
Total	**21,889**	**1,601**

8. On-mine and Concentrating Costs

	2007	06.11.06-31.12.06
Consumables and spares	7,957	523
Labour	3,954	219
Power and other utility costs	3,301	200
Third party services	121	41
Maintenance of property, plant and equipment	496	52
Total (see note 7)	**15,829**	**1,035**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

9. General and Administrative Expenses

	2007	06.11.06-31.12.06
Payroll and salary taxes	2,311	467
Consulting services	1,369	123
Taxes	701	60
Provision of obsolete inventory	296	–
Depreciation	281	4
Materials	227	18
Business trip expenses	207	–
Bank charges	176	56
Provision for prepayments against supplier account	160	–
Rent	144	13
Communication	116	–
Other	1,027	75
Total	**7,015**	**816**
Attributable to:		
Continued operations	6,833	813
Discontinued operations	182	3
Total	**7,015**	**816**

10. Distribution Costs

	2007	06.11.06-31.12.06
Railway services	704	45
Packaging expenses	108	9
Other	95	5
Total	**907**	**59**
Attributable to:		
Continued operations	769	59
Discontinued operations	138	–
Total	**907**	**59**

11. Finance Costs, Net

	2007	06.11.06-31.12.06
Interest income from bank deposits	206	93
Interest income related to investment held-for-sale	235	–
Interest income	**441**	**93**
Interest expense related to borrowings due to BankTuranAlem (see note 23)	270	304
Unwinding of discount (see note 24)	103	4
Unwinding of discount (see note 25)	190	9
Interest expenses	**563**	**317**

12. Other Gains and Losses

	2007	06.11.06-31.12.06
Foreign exchange gain/losses (net)	(1,048)	386
Other gains net	**(1,048)**	**386**

(in USD thousands)

13. Profit for the Period from Discontinued Operations

	2007	2006
Revenue (see note 6)	659	10
Cost of sales (see note 7)	(451)	(5)
Gross profit	208	5
General and administrative expenses (see Note 9)	(182)	(3)
Distribution costs (see note 10)	(138)	-
Other expenses, net	(2)	-
(Loss)/profit before income tax	(114)	2
Tax benefit	34	-
Net loss for the period	(80)	2
Gain on disposal of subsidiary	257	-
Attributable income tax expense	(77)	-
Profit for the period from discontinued operations	**100**	**2**

14. Taxation

Income tax expense can be reconciled to the loss per the consolidated income statement as follows:

	2007	2006
Loss before taxation from continued operations	(12)	-
Profit before taxation from discontinued operations	143	-
Pre-tax Netherlands loss, not included in deferred tax asset	330	-
Profit before taxation	461	-
Tax expense at the statutory tax rate of 30%	138	-
Impairment of unused tax losses recognized as deferred tax asset	2,000	-
Effect of expenses that are not deductible in determining taxable profit	20	-
Effect of revenue that is exempt from taxation	(43)	-
Tax expense on exchange gain in foreign operations	1,041	-
Income tax expense	**3,156**	
Attributable to		
Continued operations	3,113	-
Discontinued operations	43	-
Total	**3,156**	-

The Group has tax losses in Kazakhstan amounting to USD 18,994 thousand, available for carry forward against future taxable income, which will expire annually starting from 2009 to 2012, if not utilized against future taxable income. Based on the tax losses, the Company recognized a deferred tax asset of USD 5,698 thousand. This amount has subsequently been impaired for USD 2,000 thousand (see note 30).

The company takes the position that the interest payments on the hybrid intercompany loans are corporate income tax deductable in Kazakhstan and exempt from corporate income tax in the Netherlands. As a result the unused taxable loss amounting to USD 6.933 thousands, which will expire from 2016. The Company did not recognize a deferred tax asset for these tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

15. Property, Plant and Equipment

	Land	Mine development costs	Buildings and construction	Machinery and production equipment	Vehicles	Other	Construction-in-progress (CIP)	Assets in transit	Total
Cost									
As at 6 November 2006	–	–	–	–	–	–	–	–	–
Acquisition of the subsidiary	45	3,408	4,773	12,083	363	673	1,575	–	22,920
Additions	–	–	–	13	–	10	1,496	–	1,519
Transfers from CIP	–	–	–	43	–	(4)	(39)	–	–
Disposals	–	–	–	(75)	–	(70)	–	–	(145)
Translation difference	–	26	37	94	2	5	22	–	186
As at 31 December 2006	**45**	**3,434**	**4,810**	**12,158**	**365**	**614**	**3,054**	**–**	**24,480**
Additions	5	56	42	3,986	319	115	32,081	2,795	39,399
Transfers	–	310	617	10,380	1	(6)	(11,302)	–	–
Disposal of subsidiary	(5)	–	(26)	(1,187)	(91)	(13)	(589)	–	(1,911)
Disposals	–	–	–	(263)	(58)	(32)	(137)	–	(490)
Translation difference	3	192	268	677	21	34	170	–	1,365
As at 31 December 2007	**48**	**3,992**	**5,711**	**25,751**	**557**	**712**	**23,277**	**2,795**	**62,843**
Accumulated amortization and depreciation									
As at 6 November 2006	–	–	–	–	–	–	–	–	
Acquisition of the subsidiary	–	(239)	(1,091)	(3,994)	(103)	(172)	–	–	(5,599)
Amortization and depreciation charge	–	(12)	(29)	(90)	(3)	(1)	–	–	(135)
Translation difference	–	(1)	(9)	(31)	(1)	(1)	–	–	(43)
As at 31 December 2006	**–**	**(252)**	**(1,129)**	**(4,115)**	**(107)**	**(174)**	**–**	**–**	**(5,777)**
Amortization and depreciation charge	–	(121)	(387)	(2,271)	(38)	(91)	–	–	(2,908)
Disposals subsidiary	–	–	–	178	–	20	–	–	198
Disposals	–	–	–	137	24	27	–	–	188
Translation difference	–	(14)	(63)	(272)	(6)	(10)	–	–	(365)
As at 31 December 2007	**–**	**(387)**	**(1,579)**	**(6,343)**	**(127)**	**(228)**	**–**	**–**	**(8,664)**
Net book value									
As at 31 December 2006	**45**	**3,182**	**3,681**	**8,043**	**258**	**440**	**3,054**	**–**	**18,703**
As at 31 December 2007	**48**	**3,605**	**4,132**	**19,408**	**430**	**484**	**23,277**	**2,795**	**54,179**

Property, plant and equipment with a net carrying value of USD 6,376 thousand and USD 2,643 thousand, as at 31 December 2007 and at 31 December 2006 respectively, have been pledged to secure long-term borrowings.

16. Exploration Costs

	2007	2006
Balance at the beginning of the period	1,777	1,763
Additions	23	-
Sale of subsidiary	(404)	-
Translation difference	98	14
Balance at the end of the period	**1,494**	**1,777**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

17. Prepayments for Long-term Assets

	2007	2006
Prepayments for equipment and machinery	7,786	613
Prepayments for consumables and suppliers	4,521	729
Less: Provision for prepayments for consumables and suppliers	(163)	-
	12,144	**1,342**
Classified as:		
Non-current assets	7,786	613
Current assets	4,358	729
	12,144	**1,342**

The Group made prepayments for three ball-mills and lifting equipment for mine and processing plant expansion projects.

18. Trade Receivable

The average credit period on sales of goods is 30 days. No interest is charged on the trade receivables. Trade receivables between 120 days and 360 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Of the trade receivables balance at the end of the year, USD 2.9 million (2006: USD nil) is due from Cheriton Finance Ltd, the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

	2007	2006
Ageing of past due but not impaired		
60-90 days	**2,918**	122
90-120 days	**15**	-
Total	**2,933**	**122**

	2007	2006
Movement in the allowance for doubtful debts		
Balance at beginning of the year	-	-
Impairment losses recognized on receivables	**104**	-
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	-	-
Unwind of discount	-	-
Balance at end of the year	**104**	-

19. Inventories

	2007	2006
Stores and materials	5,939	3,558
Finished goods	1,257	800
Work-in-process	1,099	264
Total	**8,295**	**4,622**
Reconciliation of change in inventory		
Change in finished goods and work in progress	(1,292)	
Exchange difference	78	
	(1,214)	

(in USD thousands)

20. Available-for-Sale Security

	2007	2006
Bonds	2,120	–
Fair value adjustment	(347)	–
Total	**1,773**	**–**

On 13 March 2007 the Group purchased BankTuranAlem bonds for a consideration of USD 2,085 thousand. Maturity date of bonds is 29 June 2036.

21. Cash and Cash Equivalents

	2007	2006
Amount in Letter of Credit account*	14,749	–
Cash in deposits, USD nominated	1,145	5,700
Cash in banks, USD nominated	313	28,582
Cash in special deposits, KZT nominated†	71	45
Cash in banks, KZT nominated	31	136
Cash on hand, KZT nominated	28	49
Cash in banks, EUR nominated	1	59
Total	**16,338**	**34,571**
Classified as:		
Non-current assets	14,820	45
Current assets	1,518	34,526
	16,338	**34,571**

* The Group opened a Letter of Credit account for USD 14,749 thousand for future payments to suppliers. This has been classified as restricted cash category in non-current assets.
† Pursuant to the Subsurface Use Contract the Group is obliged to accumulate cash to meet provision for future site restoration related to obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage.

22. Profit/loss per Share

From Continuing Operations

The numerator for the calculation of the basic profit per share is the loss after tax of USD 3,125 thousand and the dominator for the calculation of the basic profit per share is 5,650,000.

	2007 US cents	2006 US cents
(Loss)/profit per share	(55.3)	18
Diluted (loss)/ profit per share	(55.3)	18
(Loss)/profit attributable to ordinary shareholders	(3,125)	992
Issued Ordinary Shares at 31 December 2007	5,650,000	5,650,000

From discontinued operation

The numerator for the calculation of the basic profit per share is the profit after tax of USD 100 thousand and the dominator for the calculation of the basic profit per share is 5,650,000.

	2007 US cents	2006 US cents
Profit per share	1.8	0.04
Diluted profit per share	1.8	0.04
Profit attributable to ordinary shareholders	100	2
Issued Ordinary Shares at 31 December 2007	5,650,000	5,650,000

(in USD thousands)

23. Borrowings

	2007	2006
KZT denominated borrowings due to BankTuranAlem		
Opening balance	–	38,726
Borrowings granted	–	–
Foreign exchange gain	–	33
Interest charged for the year (see note 11)	5	228
	–	38,987
Less: amount repaid	–	(38,987)
Closing balance – current liability	5	–

The Company received a guarantee from BankTuranAlem in amount of USD 532 thousand for customs payments. The bank's fee for this guarantee amounted to USD 5,000.

	2007	2006
USD denominated borrowings due to BankTuranAlem		
Opening balance	2,504	10,691
Borrowings granted	8,428	–
Interest charged for the year (see note 11)	265	76
Foreign exchange gain	(22)	–
	11,175	10,767
Less: amount repaid	(1,050)	(8,263)
Closing balance	10,125	2,504
Less: current portion shown under current liabilities	(5,916)	(910)
Non-current portion	4,209	1,594
EUR denominated borrowings due to BankTuranAlem		
Opening balance	–	–
Borrowings granted	13,190	–
Capitalized interest for qualifying assets	346	
Foreign exchange loss	871	–
	14,407	–
Less: amount repaid	–	–
Closing balance	14,407	
Less: current portion shown under current liabilities	(351)	–
Non-current portion	14,056	
Rouble denominated borrowings due to BankTuranAlem		
Opening balance	–	–
Borrowings granted	697	–
Capitalized interest for qualifying assets	2	
Foreign exchange gain	(4)	–
	695	–
Less: amount repaid	–	–
Closing balance	695	–
Less: current portion shown under current liabilities	(2)	
Non-current portion	693	–

The borrowings due to BankTuranAlem are secured by a charge over the Group's property, plant and equipment (see note 15) and bear interest at rates ranging from 12% per annum to LIBOR plus 8%. These borrowings have maturity dates ranging from 3 June 2009 to 30 December 2013 as follows:

	2007	2006
Within one year	6,274	910
Within 2-5 years	18,958	1,594
	25,232	**2,504**

(in USD thousands)

24. Provision for Future Site Restoration

	2007	2006
Opening balance	2,018	1,999
Unwinding of discount (at 12%)	103	4
Exchange difference	120	15
Closing balance	**2,241**	**2,018**
Restricted cash on special deposit	(71)	(45)
Unfunded portion of the provision	**2,170**	**1,973**

The provision for future site restoration relates to the contractual obligations contained in the Shalkiya Subsurface Use Contract to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage. The majority of these costs are expected to be incurred towards the end of the life of the mine. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the estimated life of the mines, the scale of any possible contamination and the timing and extent of corrective actions.

The following are the key assumptions on which the discounted carrying amount of the obligation is based:

- The total undiscounted amount of estimated future cash expenditure to be incurred is USD 168,200,300 (or USD 9,672,130 in 2007 prices).
- The expected timing of the majority of the future cash expenditure is expected to take place at the end of the Shalkiya Subsurface Use Contract in 2046.
- The inflation rate is 8% per annum.
- The discount rate applied is 12% per annum.

The Group is obliged by the terms of the Subsurface Use Contract to accumulate cash in a special bank account calculated as 1% of operating cost per annum, to fund the provision for future site restoration over the life of the mine.

25. Due to the Republic of Kazakhstan

	2007	2006
Opening balance	1,716	1,694
Unwinding of discount (at 12%)	190	9
Exchange difference	–	13
	1,906	**1,716**

The Group accrued the discounted carrying amount of its obligation to reimburse the Government of Kazakhstan for the historical cost of geological studies performed in respect of the Talap Deposit.

The following is a summary of the key assumptions on which the discounted carrying amount of the obligation is based:

- The total undiscounted amount of historical costs outlined in the Talap Subsurface Use Contract is KZT 509,327 thousand (USD 3,809,481).
- The reimbursement of the obligation is expected to occur in 40 equal, quarterly instalments, commencing on 1 January 2009 and ending on 31 December 2018.
- The discount rate applied is 12% per annum.

26. Trade Accounts Payable

	2007	2006
Trade accounts payable for equipments and materials	4,923	301
Trade accounts payable for services	4,143	75
Total	**9,066**	**376**

27. Other Current Liabilities

	2007	2006
Accrued expenses	5,533	41
Payroll payable	534	42
Other payables	269	305
Total	**6,336**	**388**

(in USD thousands)

28. Shareholders' Equity

The authorized share capital of ShalkiyaZinc N.V. is EUR 225,000, divided into 22,500,000 shares each with a nominal value of EUR 0.01 per share. The issued share capital of ShalkiyaZinc N.V. is EUR 56,500 divided into 5,650,000 shares each with a nominal value of EUR 0.01 per share, equivalent to USD 83,219 at an exchange rate of USD1.4729.

Our reserves are freely distributable except for USD 325 thousand of legal reserves. Reference is made to note 29 for an overview of our non-distributable reserves.

29. Legal Reserves

The movements in legal reserves were as follows:

	2007	2006
Legal reserves at 1 January	(113)	-
Assets revaluation reserve	(347)	-
Cumulative translation adjustment	3,563	(113)
Legal reserves at 31 December	**3,103**	**(113)**
Asset revaluation reserve	(347)	-
Cumulative translation reserves	3,450	(113)
Total legal reserves	**3,103**	**(113)**

30. Equity Settled Share-based Payment Transactions

The Group operates an ownership-based compensation scheme for the Chairman of the Supervisory Board. In accordance with the provisions of the plan, he may be granted options to purchase Ordinary Shares. For option series granted at 7 December 2006, the exercize price is equal to the offering price of the GDRs at 7 December 2006 and for option series granted at any other date than 7 December 2006, the exercize price is the average of the closing share prices of ShalkiyaZinc on each of the thirty days (30) prior to the relevant grant date. Each share option converts into one Ordinary Share on exercize. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercized at any time from the date of vesting to the date of their expiry. The number of granted options is calculated from the USD amount of five times the option's holder annual fee as of the relevant grant date divided by the relevant exercize price and is subject to approval by the Remuneration Committee. The options granted expire within one month of the resignation of the Chairman.

The number and exercize prices of share options granted to Graham McCartney, the Chairman of the Supervisory Board is as follows:

	2007		2006	
	Number	Weighted average exercize price	Number	Weighted average exercize price
Balance at the beginning of the period	**5,500**	**72.5**	-	-
Granted during the period	**8,222**	**49.3**	5,500	72.5
Forfeited or expired during the period	-	-	-	-
Exercized during the period	-	-	-	-
Balance at the end of the period	**13,722**	**58.6**	5,500	72.5
Exercizable at the end of the period	**13,722**	**58.6**	**5,500**	**72.5**

The outstanding options at 31 December 2007 have been valued using a binominal option valuation model under the assumptions listed below. Under these assumptions, the total value of the charge arising from these options granted in 2007 is USD 12.28 per share option or USD 101 thousand in total (2006: USD 64 thousand).

The principal assumptions used within the stock option valuation model were as follows:

	2007
Fair value of the share price at date of grant issued, in USD	**53.0**
Exercize price, in USD	**49.3**
Interest rate per annum, in %	**3.08**
Dividend yield, in %	**0.0**
Vesting time, in years	**2**
Volatility, in %*	**30.67**
Employee exit rate, in %†	**0.0**

* Volatility is based on the historical volatility, which is calculated from the historical weekly closing share price from 7 December 2006 up to and including 7 December 2007.

† The existing plan does not specify actual vesting period, however, the management believes that two years is the best estimate of the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
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(in USD thousands)

31. Deferred Taxation

	2007	2006
Deferred tax assets arising from:		
Differences in carrying values of property, plant and equipment	–	389
Accrued expenses	28	559
Accrued expenses	62	-
Changes in estimate	90	-
Provision for slow moving inventory	90	-
Provision for unused vacation	76	-
Provision against prepayments	49	-
Provision against doubtful debts	31	-
Others	40	–
	466	948
Tax losses available for carry forward	5,698	4,651
Translation difference	(29)	-
Provision for impairment	(2,000)	-
	3,669	4,651
Deferred tax assets	4,135	5,599
Deferred tax liabilities arising from:		
Capitalized costs	(461)	(407)
Unrealized foreign exchange gain	(775)	-
Intercompany loan	(281)	-
Difference in carrying values of property, plant and equipment	(340)	-
	(1,857)	(407)
Deferred tax assets, net	2,278	5,192

The difference between the deferred tax asset between 31 December 2007 and 2006 (USD 2,914 thousand) does not reconcile with the tax charge in note 14 (USD 3,156 thousand). This difference (USD 242 thousand) is caused by translation differences.

32. Disposal of Subsidiary
During the year ended 31 December 2007 the Group disposed of its wholly-owned subsidiary, Shakkinskiy Shebenoshniy Zavod (Stone Crushing Plant). Details of the disposal are as follows:

	2007
Book value of net assets sold	
Non-current assets	
Property, plant and equipment	1,713
Exploration costs	404
Current assets	
Cash and cash equivalents	187
Trade accounts receivable	98
Prepayments to suppliers	3,600
VAT receivable	196
Inventories	259
Current liabilities	
Trade accounts payable	(4,999)
Taxes payable	(6)
Other current liabilities	(1,308)
Net assets disposed	144
Exchange gain	4
Gain on disposal	257
Consideration received in cash and cash equivalents	405
Consideration received in cash and cash equivalents	405
Less: cash and cash equivalent balances disposed of subsidiary	(187)

(in USD thousands)

Net cash inflow on disposal	218

33. Financial Instruments

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of Financial Instruments

	2007	2006
Financial assets		
Loans and receivables (including cash and cash equivalents)	27,857	38,839
Available-for-sale financial assets	1,773	–
Financial liabilities		
Amortized cost	42,941	6,053

Risk Management Objectives

Exposure to market, credit, interest and currency risk arises in the normal course of the Group's business. Derivative financial instruments are not used to reduce exposure to risks.

Concentration of Business Risk – During the year ended 31 December 2007, the Group's sources of revenue resulted mainly from sales of products to Cheriton Finance (UK) and Boertala Mongolian Automous Prefekture – 84% (2006: 93%) and 7% (2006: 1%) of total sales, respectively.

Commodity Price Risk – The Group is exposed to fluctuations in zinc and lead product prices as a result of market conditions and changes in commodity prices on the London Metal Exchange.

Credit Risk – Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As at 31 December 2007, the Group believes that its maximum exposure to credit risk relates to its accounts receivable as reflected by their carrying values.

Foreign Currency Risk – The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group does not hedge its foreign currency risks.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	2007	2006
Currency in tenge	25,246	2,440	9,402	5,196
Currency in euros	14,406	–	14,056	59
Currency in Russian rouble	694	–	692	–
Total	**40,346**	**2,440**	**24,150**	5,255

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to the currency of Kazakhstani tenge and the currency of EU euros.

The following table details the Group's sensitivity to a 10% increase and decrease in the USD against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans. A positive number below indicates an increase in profit where the USD strengthens 10% against the relevant currency in 2007 and in 2006. For a 10% weakening the USD against the relevant currency, there would be equal and opposite impact on profit, and the balances below would be negative.

The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

33. Financial Instruments continued

	KZT impact		EU Euros impact	
	2007	2006	**2007**	2006
Profit or loss	(1,584)	276	36	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest Rate Risk
Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial results of the Group. The Group does not use any derivatives to manage interest rate risk exposure.

Interest Rate Risk Management
The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group does not hedge its interest rate risks.

Interest Rate Sensitivity Analysis
The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. A 1% increase is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant the Group's profit for the year ended 31 December 2007 would decrease by USD 16 thousand (2006: decrease by USD 25 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Operational Risk – Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In accordance with the Subsoil Use Contracts, the Group is obliged to carry insurance against accidents during production and occupational diseases to its employees. As at 31 December 2007 the cost of this insurance composed USD 15 thousand.

As at 31 December 2007, the Group believes it had sufficient insurance policies in force in respect of public liability (see note 34).

Liquidity Risk
Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Liquidity Risk Management
Ultimate responsibility for liquidity risk management rests with the Group's short-, medium- and long-term funding. The Group manages liquidity risk by banking facilities by continuously monitoring forecast and actual cash flows.

Liquidity and Interest Risk Tables – The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2007 (USD thousands)	**Weighted average effective interest rate**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**5+ years**	**Total**
Non-interest bearing		2,448	5,577	339	7,439	–	15,803
Variable interest rate instruments							
Borrowing due to BankTuranAlem	12.02%	–	33	–	1,594	–	1,627
Fixed interest rate instruments							
Borrowing due to BankTuranAlem	12%		457	–	23,148	–	23,605

33. Financial Instruments continued

2006 (USD thousands)	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing		33	927	–	–	–	960
Variable interest rate instruments							
Borrowing due to BankTuranAlem	11.20%	–	170	807	1,527	–	2,504

The following table details the Group's expected maturity for its non-derivative financial assets. It has been drawn up based on the undiscounted contractual maturity of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

2007 (USD thousands)	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing		2,955	4,066	4,498	–	–	11,519
Fixed interest rate instruments							
Available-for-sale securities	7%	62	–	1,711	–	–	1,773

2006 (USD thousands)	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
Non-interest bearing		322	770	3,176	–	–	4,268

34. Commitments and Contingencies

Capital Commitments and Contractual Liabilities – The Group has awarded contracts for capital expenditure in amounts of USD 77,057 thousand of which USD 49,937 thousand was paid to suppliers as at 31 December 2007.

Subsurface Use Contract – As at 31 December 2007, the Group had the following contractual obligations:

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 1.00% of operating costs. The Group spent USD 24 thousand against the obligation of USD 15 thousand for the period ended 2007.

Liquidation Fund – Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account in an amount of not less than 1.00% of operating costs to meet provision for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account in an amount of not less than 1.00% of exploration and operating costs (capped at USD 7,767,000) to meet provision for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

The Group's management believes they are in compliance with the commitments set forth in the Shalkiya and Talap Subsurface Use Contracts. However, such compliance may be questioned by the relevant authorities whose interpretation may differ from the Group's.

Insurance – The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in development markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. As of 31 December 2007 the Group has in place all insurance programmes in compliance with the Subsurface Use Contract.

Taxation – Tax laws in the Republic of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to the business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that the transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to be reviewed by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group.

34. Commitments and Contingencies continued
Environmental Matters – The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that full compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist. As of 31 December 2007 the Group spent USD 17 thousand for monitoring of the environment.

Court Proceeding – The Group is a defendant in a legal action involving alleged environmental pollution in amount of USD 3,218 thousand. Management believes, based on legal advice, that the action can be successfully defended and therefore no losses will be incurred.

Financing – The Company has appointed Barclays Capital as a financial adviser to arrange senior debt financing to fund construction of the new plant and expansion of the Shalkiya Mine.

Kentau Plant – As disclosed in note 1, the Group is considering its strategic options for the Kentau processing plant. To date, no decision has been taken by management or the directors to pursue a closure plan. Management and the directors believe that no legal or constructive obligations exist to remediate the Kentau plant site other than dismantling and removal of plant and equipment.

The Group owns the emergency tailing facilities related to the Kentau Plant and has recorded a rehabilitation liability as at 31 December 2007. The Group does not own operational tailing facilities. The Group does not have any obligation for remediation of operational tailing facilities.

Derivatives – The Company has agreed on an intercompany loan of USD 50 million between ShalkiyaZinc N.V. (lender) and its subsidiary LLP Shalkiya Zinc Ltd (borrower). Upon consolidation this loan is eliminated. The interest to be paid on this loan depends on the pre-tax profit of LLP Shalkiya Zinc Ltd. This profit-linking feature is considered to be an embedded derivative. The embedded derivative will be classified as at fair value through profit and loss and the debt host contract will be measured at cost with interest expense recognized in accordance with the effective interest rate method.

The interest payments follow the loan agreements (profit linked). The Company takes the position that these payments are corporate income tax deductible in Kazakhstan and exempt from corporate income tax in the Netherlands.

35. Related Parties and Parties with Significant Influence on the Group's Operations
Related parties include partners, key management personnel, affiliates and entities under common ownership, over which the Group has the ability to exercize significant influence or have the ability to exercize significant influence over the Group.

IAS 24 "Related Party Disclosures"
In considering each possible related party relationship, special attention is directed to the substance of the relationship, and not merely the legal form as required by IFRS.

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parties of the Group that represent:
- enterprizes, that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprizes, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals (partners) owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- enterprizes, in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercize significant influence.

This includes enterprizes owned by directors or major owners of the Group and enterprizes that have a member of key management in common with the Group.

Borrowing from the Related Parties
During the period ended 31 December 2007 the Group had material transactions with BankTuranAlem of which Zhaksylyk Zharimbetov (member of the Group's Supervisory Board) is a member of the Board of Directors. As disclosed in note 20, the Group purchased the bonds from BankTuranAlem for a consideration of USD 2,120 thousand. The maturity date of bonds is 29 June 2036. The Group purchased 25,146 bonds with a coupon rate 7% and nominal value of USD 80.

Interest on BankTuranAlem borrowings of USD 618 thousand were accrued for the period ended 31 December 2007 (31 December 2006: USD 896 thousand).

The borrowings due to BankTuranAlem are secured by a charge over the Group's property, plant and equipment (see note 23) and bear interest at rates ranging from 12% per annum. These borrowings have maturity dates ranging from 1 November 2011 to 30 December 2013.

(in USD thousands)

35. Related Parties and Parties with Significant Influence on the Group's Operations continued
The sudden suspension or elimination of business transactions with BankTuranAlem could severely impact the operations of the Group.

Sales of Stone Crushing Plant
During the period ended 31 December 2007 the Group sold the fully owned subsidiary Stone Crushing Plant for USD 398 thousand. 40% of shares of Stone Crushing Plant were acquired by Polymetall Resources Ltd for consideration of USD 159 thousand. 40% of the shares of the subsidiary were sold to "Polymetall Resources" Ltd. which is owned by General Director Marat Sarkytbayev (80%) and Business Development Director Samat Kazymov (20%), executive officers of the Group.

Management believes that the related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

36. Sales of Stone Crushing Plant
As of 30 June 2007 the Group disposed wholly-owned subsidiary, Stone Crushing Plant. The management decided to dispose Stone Crushing Plant as it was a non-core operation.

The partner's capital of Stone Crushing Plant was USD 141 thousand as at the date of sale, 28 June 2007. The Group received the offers from Kazyna Invest Group Ltd and Polymetall Resources Ltd for purchase of 60% and 40% shares of Stone Crushing Plant accordingly. Total offer price was USD 398 thousand. The Group accepted these offers as it was very attractive.

The Group received USD 159 thousand from Polymetall Resources Ltd and USD 239 thousand from Kazyna Invest Group Ltd on 28 June 2007 by bank transfer.

At the date of sales the net carrying value of property, plant and equipment of Stone Crushing Plant was USD 1,685 thousand. The Group has trade accounts receivable from Stone Crushing Plant in amount of USD 413 thousand.

37. Auditor's Remuneration

	2007	2006
Audit of financial information of the Group	300	296
Transaction advisory services relating to the offer	–	182
Total	**300**	**478**

38. Supervisory Board Remuneration

	2007	2006
Wages and salaries	79	72
Social security and pension costs	–	–
Total	**79**	**72**
The emoluments of the Chairman	79	72

39. Compensation of Key Management Personnel
The total number of key management personnel as at 31 December 2007 is seven persons (31 December 2006: five). The total compensation paid to key management personnel amounted to USD 1,310 thousand for the period ended 31 December 2007 (2006: USD 645 thousand).

The total remuneration (including the expenses recorded for the share options granted) paid to a member of the supervisory board is USD 223,600 for the period ended 31 December 2007 (2006: USD 72 thousand).

Included in other accounts payable as at 31 December 2007 is an amount due from the General Director of USD 3,050 (31 December 2006: USD 46,055 in other accounts receivable).

40. Events Subsequent to the Balance Sheet Date
The subsidiary company entered into a credit line with BankTuranAlem for USD 38.5 million in 2007. During 2007 the Company drew down USD 25 million. During March 2008, the Company drew down a further USD 5 million under this facility from BankTuranAlem. The Company has utilized this amount for working capital and capital expenditure requirements. There remains an undrawn balance of USD 8.5 million. The Company estimates that this undrawn balance of USD 8.5 million will be sufficient for working capital and capital expenditure requirements for the completion of the Stage I development during which time the Company's operations shall become cash flow positive.

This borrowing is secured by a charge over the Group's property, plant and equipment and bears interest at a rate of 16% per annum. This borrowing has a maturity date of 30 December 2013.

COMPANY FINANCIAL STATEMENT OF SHALKIYAZINC N.V.

COMPANY INCOME STATEMENT OF SHALKIYAZINC N.V.
for the year ended 31 December 2007
(before proposed appropriation of results)

(in USD thousands)

	Notes	2007	2006
Result of subsidiary after taxation	2	(2,695)	973
Other income and expense after tax	5	(330)	21
Net (loss) profit		**(3,025)**	**994**

COMPANY BALANCE SHEET OF SHALKIYAZINC N.V.
as at 31 December 2007

(in USD thousands)

	Notes	2007	2006
Assets			
Non-current assets			
Financial fixed assets	2	59,450	58,186
Total non-current assets		59,450	58,186
Current assets			
Short-term portion of VAT receivable		-	16
Short-term loan	2	2,500	-
Accounts receivable	3	1,547	51
Cash and cash equivalents	4	1,150	5,906
Total current assets		5,197	5,973
Total assets		**64,647**	**64,159**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	6	83	73
Share premium		61,355	61,355
Legal reserves	7	3,103	(113)
Equity settled employee benefits reserve	8	165	64
Retained earnings		(2,031)	994
Total shareholders' equity		62,675	62,373
Non-current liabilities			
Derivative liability		1,671	-
Total non-current liability		1,671	-
Current liabilities			
Trade accounts payable		107	1,785
Short-term portion of VAT payable		-	-
Taxes payable		9	1
Accrued fees		185	-
Total current liabilities		301	1,786
Total equity and liabilities		**64,647**	**64,159**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2007

(in USD thousands)

1. Presentation of Financial Statements and Principle Accounting Policies

The description of the activities of ShalkiyaZinc N.V. (the "Company") and the Company structure, as included in the notes to the consolidated financial statements, also apply to the Company financial statements.

In accordance with section 2:362 Part 8 of the Netherlands Civil Code, the Company has prepared its Company financial statements in accordance with accounting principles generally accepted in the Netherlands, applying the accounting policies as adopted in the consolidated financial statements (IFRS). Investments in subsidiaries are stated at net equity value, as the Company effectively exercizes significant influence over them. For more information on the accounting policies applied, and on the notes to the consolidated financial statements, please refer to pages 72 to 93.

The total equity and profit in the Company financial statements is equal to the consolidated equity.

In accordance with section 402 of Part 9 of Book 2 of the Netherlands Civil Code, a condensed income statement is included in these financial statements.

2. Financial Fixed Assets

Financial fixed assets consists out of the following:

	2007	2006
Long-term loan	50,731	73,000
Investment in subsidiary	8,719	(14,814)
	59,450	**58,186**

The movement of the long-term loan is as follows:

	2007	2006
Opening balance at 1 January	73,000	-
Repayments over the year	(23,000)	-
Restatement of loan part	731	-
Borrowing granted during the year	2,500	73,000
Closing balance at 31 December	**53,231**	**73,000**
Less: current portion shown under current assets	(2,500)	-
Non-current portion	**50,731**	**73,000**

The loan is relating to the subsidiary of the Company. As per 31 December 2007 the loan increased with USD 2,500 thousand to USD 53,231 thousand. The new loan with total amount of USD 2,500 thousand bears an annual interest of 12% and has a duration of nine (9) months and therefore should be repaid including the accrued interest no later than 1 August 2008.

The loan amount of USD 50,731 thousand bears an annual interest rate based upon the pre-tax profit earned by subsidiary company. The effective interest rate to the borrowings has been estimated to be 9.75%. The loans are repayable in 2061. The loan is unsecured and repayment is subordinated to rights of other creditors.

The investment is subsidiary is relating to ShalkiyaZinc Ltd and is stated at net equity value, as the Company effectively exercizes significant influence over them.

The movements of the investment in subsidiary were as follows:

	(In USD thousands)
Balance as at 6 November 2006	
Book value	1
Movements 2006	
Contribution in kind	(15,675)
Cumulative translation adjustment	(113)
Result subsidiary for the period	973
Balance as at 31 December 2006	
Book value	(14,814)
Movements 2007	
Contribution in kind	23,000
Asset revaluation reserve	(347)
Cumulative translation adjustment	3,575
Result subsidiary for the period	(2,695)
Balance as at 31 December 2007	
Book value	8,719

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
For the year ended 31 December 2007

(in USD thousands)

3. Accounts Receivable

	2007	2006
Receivable from subsidiary	1,546	–
Other accounts receivable	1	51
	1,547	**51**

4. Cash and Cash Equivalents

	2007	2006
Cash in deposit, USD denominated	1,145	5,700
Cash in banks, USD denominated	4	147
Cash in banks, EUR denominated	1	59
	1,150	**5,906**

5. Other Income and Expense
Other income and expense consists of consultancy and service fee, the remuneration of the Supervisory Board and interest income on the Company's outstanding cash balances and outstanding long-term and short-term loan to the subsidiary. The interest income on the long-term and short-term loan to the subsidiary amounts to USD 397 thousand (2006: USD 17 thousand).

For the remuneration of the Supervisory Board, please refer to note 38 of the consolidated financial statements.

6. Shareholders' Equity
For the statement of changes in consolidated equity for the year ended 31 December 2007, please refer to page 71 in the consolidated financial statements.

7. Legal Reserves
For details of the Legal reserves, please refer to note 29 of the consolidated financial statements.

8. Equity Settled Employee Benefits Reserve
For details of the Equity settled employee benefits reserve, please refer to note 30 of the consolidated financial statements.

SHALKIYAZINC N.V. BOARDS

MANAGEMENT BOARD
Marat Sarkytbayev
Assylbek Abuov
Henk van Wijlen
Samat Kazymov
Ramilya Azelgareyeva

SUPERVISORY BOARD
Graham McCartney
Rifat Rizoyev
Zhaksylyk Zharimbetov

Delft
11 June 2008

Shalkiya Zinc N.V.
Statutory Seat Delft

OTHER INFORMATION

Statutory Provision with Respect to Appropriation of Results
According to the Company's Articles of Association, the Company's result is freely at the disposal of the shareholders, provided that total shareholders' equity exceeds the called-up and paid-up capital of the Company, increased by legal and statutory reserves.

Proposed Appropriation of Result
The Management Board proposes to add the net loss over the period 6 November 2006 up to 31 December 2007, being the first extended financial year, in full to the retained earnings.

Auditor's Report
Reference is made to the auditor's report on page 67.

Directors Interests
Marat Sarkytbayev and Samat Kazymov, Assylbek Abuov and Rifat Rizoyev respectively hold 13.40%, 11.17% and 49.88% of the issued share capital of the Company after the Global Offer.

Subsequent Events
Reference is made to the disclosure note on page 93.

NOTES

NOTES

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