



SHALKIYAZINC II V.



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HIGHLIGHTS 2008

1.5 mtpa

achieved mine and plant capacity in the second half of 2008

68%

of zinc recovery achieved in Quarter IV of 2008

250 M USD

invested in mine and its infrastructure in 1984/1990

2,235

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

- > Revenue down to USD 11 million compared to USD 31 million in 2007 due to worldwide metal price decline and suspension of the production and sales activities in Quarter IV of 2008
- > Approximate 33% increase in cost per tonne, up to USD 41 per tonne in 2008 compared to USD 31 per tonne in 2007

Operational Highlights

- > Due to worldwide metal price decreases the Company deliberately decreased operations and in November 2008 ceased mining, considering it non-profitable under the circumstances
- > Ore mined down by 31% to 513 thousand tonnes (2007: 738 thousand tonnes)
- > Ore processed down by 32% to 444 thousand tonnes (2007: 645 thousand tonnes)
- > Zinc concentrate sales down by 22% to 21,359 tonnes (2007: 27,353 tonnes)

New Construction

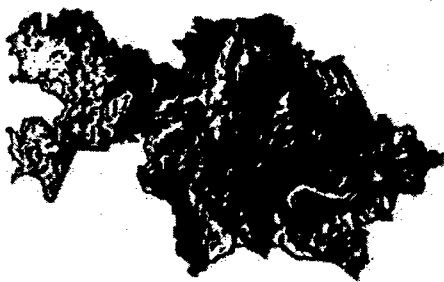
- > In 2008, SRK Consulting conducted a technical audit of solutions of project development
- > As of 31 December 2008 USD 29 million has been invested by the Company in construction of a New Processing Plant

AT A GLANCE

SHALKIYAZINC

Company's Assets

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



The Company operates in Southern Kazakhstan and the Company's main properties are:

- > key asset – the Shalkiya Mine: an underground mine in the Kyzylorda region, representing 30% of zinc reserves in Kazakhstan;
- > the Talap Deposit: a zinc-lead ore deposit 30 kilometres south-west of the Shalkiya Mine; and
- > the Kentau Plant: a zinc-lead ore processing plant near the town of Kentau in the Southern Kazakhstan region.

Vision and Values

In the face of challenging economic conditions ShalkiyaZinc had to change its short-term operating plans however the Company's vision became unchanged – we strive to be 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 need to 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 them to guide 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.

PEOPLE DEVELOPMENT

We strongly believe that the expansion of the Company is not possible without development of its people. Notwithstanding of the current economic conditions and the suspension of the production activities we strive to retain the key employees and believe that our future plans regarding the commencement of the operations of the New Processing Plant will allow us to invest in further development of our key employees.

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

One of our objectives is to use the presence of the mine and plant to generate long-term sustainable opportunities for people in the local communities.

- Our pillars of success
- > Size and long life of the asset base
 - > Developed infrastructure
 - > Management team with a proven track record

Development Timeline

1963/64

Shalkiya Deposit discovered.
Exploration begins.



1984/94

Construction of 3mtpa 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.

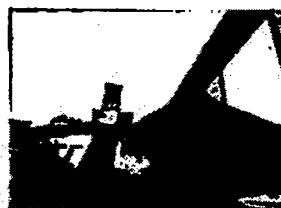


2001/04

Company acquired Shalkiya 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 3mtpa processing plant. AMC in process of restating reserves in accordance with the JORC Code. Exploration programme of the Talap Deposit completed.



2007/08

1.5mtpa capacity achieved at the end of 2008, operations were ceased due to significant decline of world-wide lead and zinc market prices.



2009/11

Design and construction of a first line of 2mtpa New Processing Plant with contemporaneous increase of processing capacity.

2012

Expected launch of the first line of 2mtpa New Processing Plant.

2012/2014

Expected construction of the second line and achieving 4mtpa processing capacity.

2015/2045

Expected annual volume of mining and processing capacity of 4mtpa.

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CHIEF EXECUTIVE'S STATEMENT



DEAR FELLOW SHAREHOLDER,

Year 2008 was challenging for all mining companies worldwide. We saw a dramatic decline in commodity prices including lead and zinc. ShalkiyaZinc's operations was also affected. The achieved increase in the mining and processing capacity could not compensate losses caused by the drop of the prices. Eventually management made the decision to halt mining and processing of ore due to the low level of metal market prices. As a result, ore mining was gradually decreased and in November 2008 mining and processing was suspended by the Company.

However having halted operations the Company continued with the programme of construction of a New Processing Plant with the planned capacity up to 4mtpa. The decision to suspend operations and construction of the New Processing Plant has been approved by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

We are sure that this project is economically viable due to the following:

- > an increase in production capacity;
- > a significant reduction in processing costs;
- > there will be no costs related to the transportation of ore from the minefield to the processing plant; and
- > projected gross margin is 31% at USD 1,903 per tonne zinc price, that means that the operations would be profitable even with the current level of zinc price. A breakeven price is estimated at USD 1,300–1,500 per tonne zinc price.

I strongly believe that possessing Shalkiya Deposit's resources, and the construction of a new modern high-capacity processing plant will allow the Company to become one of the most competitive lead and zinc producers.

Currently much preparatory work for the construction of the New Processing Plant has been accomplished already. "Outotec Technology" (Finland) have made an additional ore study and finalized basic engineering of the New Processing Plant which confirmed high technological characteristics of this plant. "Mekhanobr Engineering" (Russia) completed a feasibility study and started detailed engineering of the New Processing Plant; "Outotec Technology" is accomplishing the production of ball mills while "Kazgiprotsvetmet" (Kazakhstan) has made the update of the project of the mine capacity increase.

The construction of the hoisting shaft and service shafts has been started, mine hoisting engines have been produced by "MIDIEL AB" (Sweden) and "MIDIEL" NPF (Ukraine); mine equipment of Atlas Copco (Sweden) and Sandvic (Finland) has been purchased.

ShalkiyaZinc N.V.
Annual Report and Accounts 2008

The Government of the Republic of Kazakhstan included the project "Construction of the new 4mtpa processing plant and increasing the capacity of Shalkiya Mine up to 4mtpa" in the governmental programme "30 corporate leaders of Kazakhstan". We submitted the feasibility study of the project to the Kazakhstan Development Bank. Currently we consider the construction of the New Processing Plant in stages with the 2mtpa processing at the first stage of the construction and the subsequent capacity increase up to 4mtpa.

The construction of this plant with 2mtpa capacity and mine extension works requires USD 50 million that approximates 60% of the total financing required to construct the second line with total plant capacity of 4mtpa.

CORPORATE DEVELOPMENT

In 2008, 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.

Following recommendations of PricewaterhouseCoopers the Company introduced a new Board structure approved by an Annual General Meeting of shareholders on June 18, 2008. The Unitary Board replaced a two-tier structure which included four governing bodies – Supervisory Board and Management Board in both ShalkiyaZinc N.V. (the "NV level") and ShalkiyaZinc Ltd LLP (the "LLP level"). Those were replaced by a simpler structure, which consisted of the Unitary Board at the NV level and the combined operating Board of Directors at the LLP level.

The Company's team has been strengthened by the appointment of Tony Thornton from SRK Consulting as Acting Chief Operating Officer. During his work in this position from February till September 2008 Mr. Thornton, Chartered Mining Engineer, brought his significant experience in mining and engineering.

OPERATIONS

The operational focus during the year was to achieve 1.5mtpa capacity of the Kentau concentrator.

In the first half of the year the Shalkiya Mine operated at reduced capacity in order to match the ore processing capacity of the Kentau concentrator as testing and commencing works started in 2007 were still continued in 2008.

In the second half of the year the Kentau concentrator had achieved planned capacity of 1.5mtpa, but due to the continuous fall of zinc prices and the increase of losses the Company did not increase ore mining and processing and in November 2008 operations were suspended.

However in spite of the fact that only 59% of planned amounts of ore mined during January–October 2008, the technological characteristics were significantly improved and we achieved 68% zinc recovery which is the best recovery indicator since the launch of the Kentau concentrator.

FINANCIAL SUMMARY

The dramatic drop in world metal prices and the suspension of operations negatively influenced the Company's financial results for 2008.

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Revenue decreased by 65% to USD 11 million in 2008 from USD 31 million in 2007. The main reason for the decrease was the fall in metal prices all over the world and reduced sale volume. The average selling prices of zinc went down by 58% and lead went down by 5%. Sale volumes of concentrates decreased by 22% to 21,359 tonnes in 2008 from 27,353 tonnes in 2007.

The increase in cost per tonne was mainly due to the significant reduction of the production and higher ore transportation costs. The cost per tonne increased by 33% from USD 31 in 2007 to USD 41 in 2008, including a 31% increase in extraction and processing costs per tonne and a 36% increase in ore transportation costs per tonne.

The transportation costs per tonne kept increasing as ore transportation was performed by vehicles till mid-August 2008. And by the end of August 2008 we started using rail transport to Turkestan station which reduced transportation costs by USD 1.5 per tonne.

General and administrative ("G&A") expenses, excluding provisions and impairment, increased approximately by 14% from USD 7 million in 2007 to USD 8 million in 2008.

Increase in G&A expenses was mainly observed in payroll and related taxes by USD 1 million. Additionally, the Company incurred losses relating to suspension of the mine and processing plant of approximately USD 1 million in 2008.

Distribution costs decreased by 23% in 2008 as compared to 2007, which was due to the lower sales of concentrate.

GOING CONCERN

The Company incurred a net loss of USD 43 million for the year ended 31 December 2008. At 31 December 2008, current liabilities exceeded current assets by USD 6 million. At 31 December 2008, the accumulated deficit amounted to USD 45 million. The main reason for the net loss is a significant decline in world market prices for our products and high costs of processing and transportation. As a result we suspended production in November 2008. Also, the Company suspended construction of the new ore processing plant which started in 2008.

Furthermore, in 2009, the Company is in default under the BTA Bank loan contracts which gives BTA Bank the right to require the accelerated repayment of the borrowings in the amount of USD 30 million.

The Company's ability to continue as a going concern is dependent on the ability to raise financing:

- to finalize the construction of the New Processing Plant; and
- to repay the Company's borrowings.

The Company would need an additional USD 50 million to complete the construction. The New Processing Plant is to be equipped with innovative processing technology and equipment. Projected annual productivity of the New Processing Plant is 2mtpa during the first phase. Also, the New Processing Plant is built at the location of the Shalkiya Mine and therefore, unlike the old processing plant will not require transportation of the ore from the mine to the plant and related transportation costs.

We plan to attract financing through a private placement of additional Company's shares.

We are currently in negotiations with a potential investor about the conditions of the transaction. Also, management is in negotiations with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") regarding the MEMR's waiver of the priority right on acquisition of the Company's shares. Management believes that the probability of the transaction and obtaining the waiver from the MEMR and raising additional capital to fund the construction and repayment of the Company's borrowings is highly probable.

MARKETS

Despite the fact that markets are still unstable, zinc has proven to be a valuable, irreplaceable commodity over the centuries. While the global economy has slowed, the use of zinc remains high. This has forced inventory levels to be persistently near 10-year lows. Fundamentally, as Asian and other emerging markets upgrade their infrastructure and improve their lives, massive amounts of zinc will be used for medical, battery, and construction applications.

In our view, at current price levels the global economy is not prepared for any sudden disruption in supply or investment demand of the metal. Either factor could elevate the price of zinc substantially higher than today's.

Early investors realized this opportunity and cashed in on the speculative frenzy in 2006. Now with prices almost back to the three-year low (2008 average USD 1,875 per tonne, which is 42% lower than 2007 average - USD 3,243 per tonne), the market has presented another chance to recover which we are sure will restore demand for ShalkiyaZinc's products.

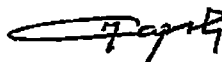
OUTLOOK

In 2008 in the face of adverse market conditions ShalkiyaZinc like many of our peers worldwide had to change its short-term production plans as well as plans for a new construction. Together with many mining companies ShalkiyaZinc suspended mining in November 2008 in order to balance current zinc surplus in the zinc market in a slow-down economy.

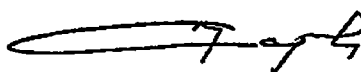
At the same time from a long-term perspective the Company has to pave the way for future development. The best way to do this is the construction of a modern high capacity processing plant situated at the Shalkiya Mine. Currently our plans are to finalize the construction of the first 2mtpa processing line in the period of 2010/2011 with its launch in 2012 and consequently increase capacity up to 4mtpa by 2015.

We strongly believe that our strategy will help in positioning the Company for a sustainable future and to rapidly benefit from global economic conditions once they eventually improve.

Finally, to all our stakeholders, especially our shareholders, employees, customers, suppliers and the communities around our plants, we would like to take this opportunity to thank them for their invaluable input and continued support during this challenging time.



Marat Sarkytbayev
Chief Executive Officer
29 October 2009



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OPERATIONS

SHALKIYA MINE

The Shalkiya zinc-lead ore deposit was discovered in 1963. Exploration started in 1964 and continued until 1979. Engineering and construction of the 3mtpa mine was done in the period of 1980/1994 with mining operations starting in 1984 and lasting until 1994. In the period 1994/2001 the mine was removed from operations and drowned. In 2001 the Company purchased the mine and conducted refurbishment till 2004. Mining was started again in February 2004.

While mining the Company continued work on the expansion of the mine and purchased mobile mining machines from Western producers. Currently the capacity of the mine is about 1.5mtpa.

However, in 2008 the Company deliberately slowed down ore extraction from the Shalkiya Mine to match ore extraction to the Kentau concentrator ore processing capacity. Low prices for lead and zinc concentrates together with high processing and transportation costs resulted in a 30% decrease in ore extraction compared to 2007. From November 2008 until present the Shalkiya Mine is temporarily closed due to non-profitability of the operations.

HISTORIC PRODUCTION

Ore mined
('000 tonnes)

2004	232
2005	360
2006	392
2007	738
2008	513

The Company is currently looking at different ways of reducing processing and transportation costs and plans to restore operations when markets become stable. Cost reduction is achievable through the mining capacity increase and the construction of the New Processing Plant at the territory of the Shalkiya Mine. This will allow transportation costs, which currently amount to more than 19% of operating costs, to be excluded and reduce processing costs.

The Shalkiya Mine is a long-term asset, its reserves amount to 202mt of ore, 6.6mt of zinc and 1.7mt of lead, which is in line with the AMC estimate which complies with the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") and can secure long-term mining at the level of 4mtpa of ore.

In 2008 the amendments to the Shalkiya Mine project were finalized. It allows moving the eventual production target up to 4mtpa of zinc-lead ore per annum instead of 3mtpa. The Company plans to gradually increase ore extraction up to 2mtpa in 2012, and up to 4mtpa in 2015.

Due to reconstruction and development current capacity of the mine is 1.5mtpa, that is why the increase of the capacity up to 2mtpa does not require much time or investment. According to the Company's information the increase of the capacity of the mine from 1.5mtpa to 2mtpa will cost USD 21 million or approximately 25% of costs needed to increase capacity up to 4mtpa (USD 83 million).

As part of the preparation to increase capacity of the mine up to 4mtpa a new hoisting shaft was constructed, and a new service shaft is currently under construction, as well as a service-and-administration building which includes office, dormitory, washing house and locker room. Hoisting and automation equipment have already been purchased.

LOCATION AND INFRASTRUCTURE

The Shalkiya Mine is located on the south-western foreland of the Karatau Ridge in the Kyzylorda region. It is 17 kilometres to the north-east of the regional centre and railway station in Zhanakorgan. The population of the Zhanakorgan district is about 70,000 people, with 5,000 people living in the Shalkiya village, 4 kilometres from the Shalkiya Mine.

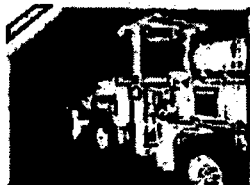
Railway lines connect the Shalkiya Mine to the Kentau Plant, as well as to suppliers and customers in other regions of Kazakhstan, and neighbouring Uzbekistan, Kyrgyzstan, Russia and China. The railway station Zhanakorgan is connected to the Turkestan-Kyzylorda motorway.

Two 220kV HT lines connect the mine with the main Kazakh power grid via a 220kV to 10kV/6kV substation with two 40MVA transformers. The mine is well supplied with water from local water boreholes supplementing existing mine water drainage. The mine infrastructure is well developed and is sufficient for further expansion of the capacity of the mine up to 4mtpa.

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



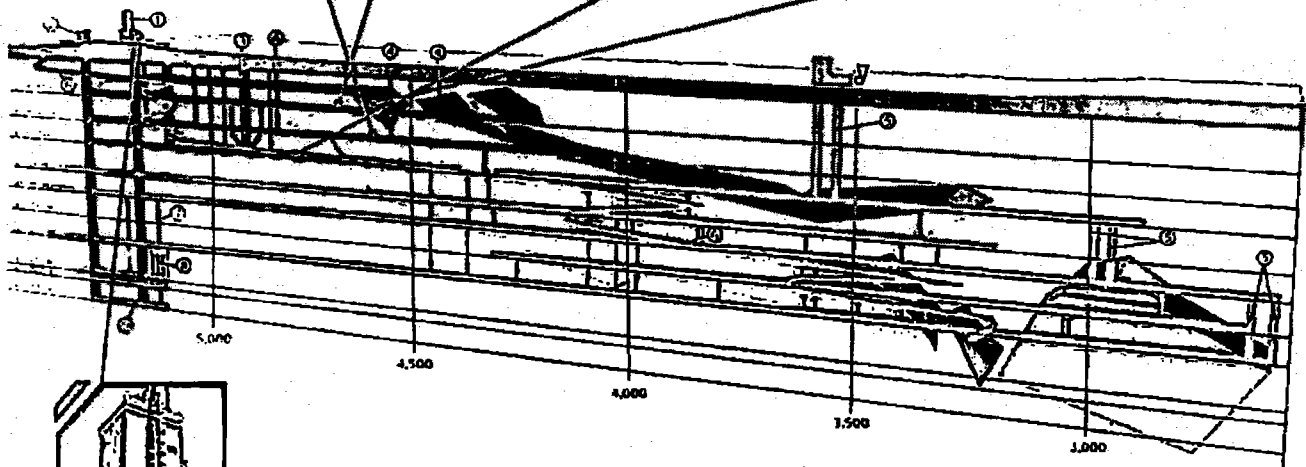
Drilling of blasting holes in drive face by drilling Jumbo Monomatik



Drilling by drilling Jumbo Boomer



Ore loading by LHD Toro-007 to Dumptrucks MoAz



- LEGEND**
- Planned workings
 - Existing workings
 - Ore C₁
 - Ore C₂
 - Surface boundary
 - Air heating building
 - Ventilator unit

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

MINE SCHEMATIC

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OPERATIONS

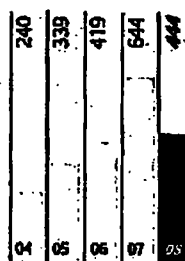
KENTAU CONCENTRATOR

In June 2003 the Company purchased the Kentaу concentrator, originally built in 1963 to process ore from Myrgalinsk Deposit, which was depleted by the time of the purchase. The Kentaу concentrator commenced processing activity in 2004. After first rehabilitation of one line of the crushing, milling and flotation facilities within the Kentaу concentrator, the plant had capacity to process 0.5 million tonnes of ore per annum. Further refurbishment of the plant started in 2006 including the replacement of worn-out flotation machines which increased the processing capacity of the Kentaу concentrator from 0.5 million tonnes of ore per annum to 1.5 million per annum tonnes in 2008.

However, due to the significant decrease in the zinc market prices in 2008 and historically high costs of processing and transportation costs at the Kentaу concentrator, processing at the Kentaу concentrator became economically not viable. Accordingly, in 2008, the Company recognized impairment loss on the assets of the Kentaу concentrator.

HISTORIC PRODUCTION

Ore processed
('000 tonnes)



The finalization of modernization of the Kentaу concentrator coincided with the drop of world metal prices and respectively for lead and zinc concentrates produced by the Company. Due to the above mentioned reasons production in 2008 became non-profitable and the decision was made to halt operations in November 2008.

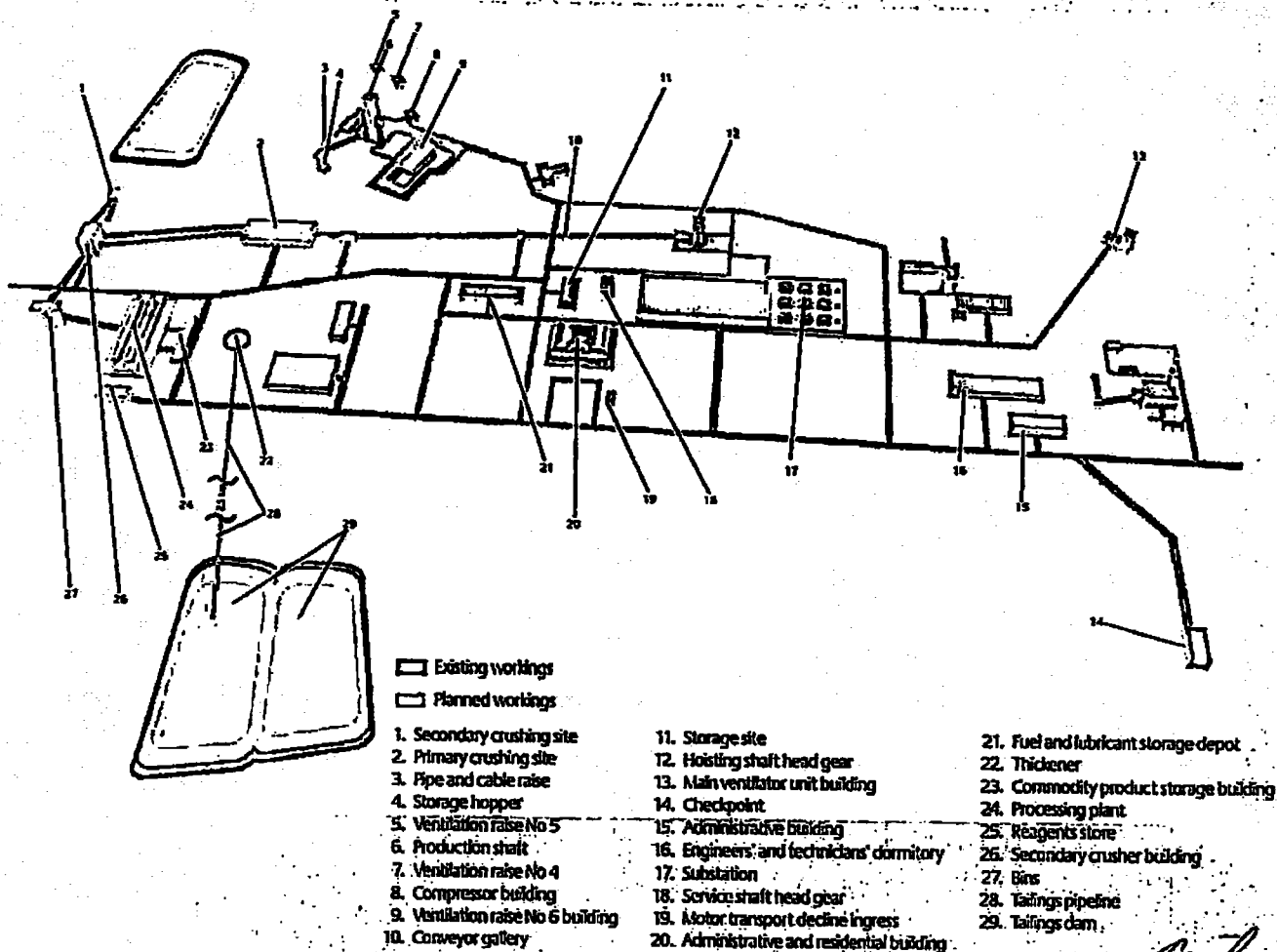
CONSTRUCTION OF THE NEW PROCESSING PLANT AT THE SHALKIYA MINE

The economic crisis confirmed that substantial reserves of Shalkiya lean ores can be effectively processed at a modern high-capacity plant situated at the mine, which will allow decreasing production costs, excluding transportation costs and decreasing risks of metal prices drop.

The construction of the New Processing Plant is still a priority for the Company. The construction is planned in two stages. Stage 1 envisages the launch of the first 2mtpa line in 2012, with contemporaneous construction of the second 2mtpa line, achieving full 4mtpa capacity in 2015.

In 2008 Outotec Technology (Finland) conducted additional study of the ore, which confirmed high technological characteristics of ore processing: zinc concentrate with grade 55% and 5% SiO₂ at 70% zinc recovery; lead concentrate with grade 43% at 50% lead recovery. "Mekhanobr Engineering" (Russia) finalized feasibility study and started detailed engineering of the New Processing Plant; Outotec Technology started production of ball mills.

We expect that the realization of this project will considerably improve the grades of concentrates, decrease metal losses during processing, reduce processing costs for more than 40% due to decrease of power consumption and better operational efficiency.



NEW PROCESSING PLANT

09

RESERVES AND RESOURCES

There are three deposits situated in the late Palaeozoic Aktyuk-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 (Tulkubash formation) overlaid by a carbonate sequence comprising fammenian, fammenian-lower Carboniferous, Tournesian and visian formations.

Pb-Zn mineralisation 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 Burabay-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 Giprosvetmet 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.

Within the period from 2004 till 2009, 2,235,000 tonnes of ore was mined with zinc 3.76% grade and lead 1.48% grade.

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 BREAK EVEN GRADE) AT 31 DECEMBER 2008:

Category	Quantity (mt)	Pb (%)	Zn (%)	Zn grade (%)	Pb metal (mt)	Zn metal (mt)
Mineral resource						
Measured	58.8	1.00	3.20	3.70	0.59	1.88
Indicated	205.6	0.70	3.10	3.40	1.40	6.40
Total measured and indicated	264.4	0.80	3.10	3.50	2.10	8.20
Inferred	9.4	0.60	2.20	2.50	0.10	0.20
Ore reserve						
Proved	44.2	1.10	3.30	3.80	0.47	1.44
Probable	158.3	0.80	3.20	3.60	1.21	5.11
Total	202.5	0.80	3.20	3.70	1.67	6.56

TALAP DEPOSIT

The Talap Deposit is situated in Zhanakorgan District of the Kyzylorda region, 35 kilometres away from the Shalkiya 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 drill holes, 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.

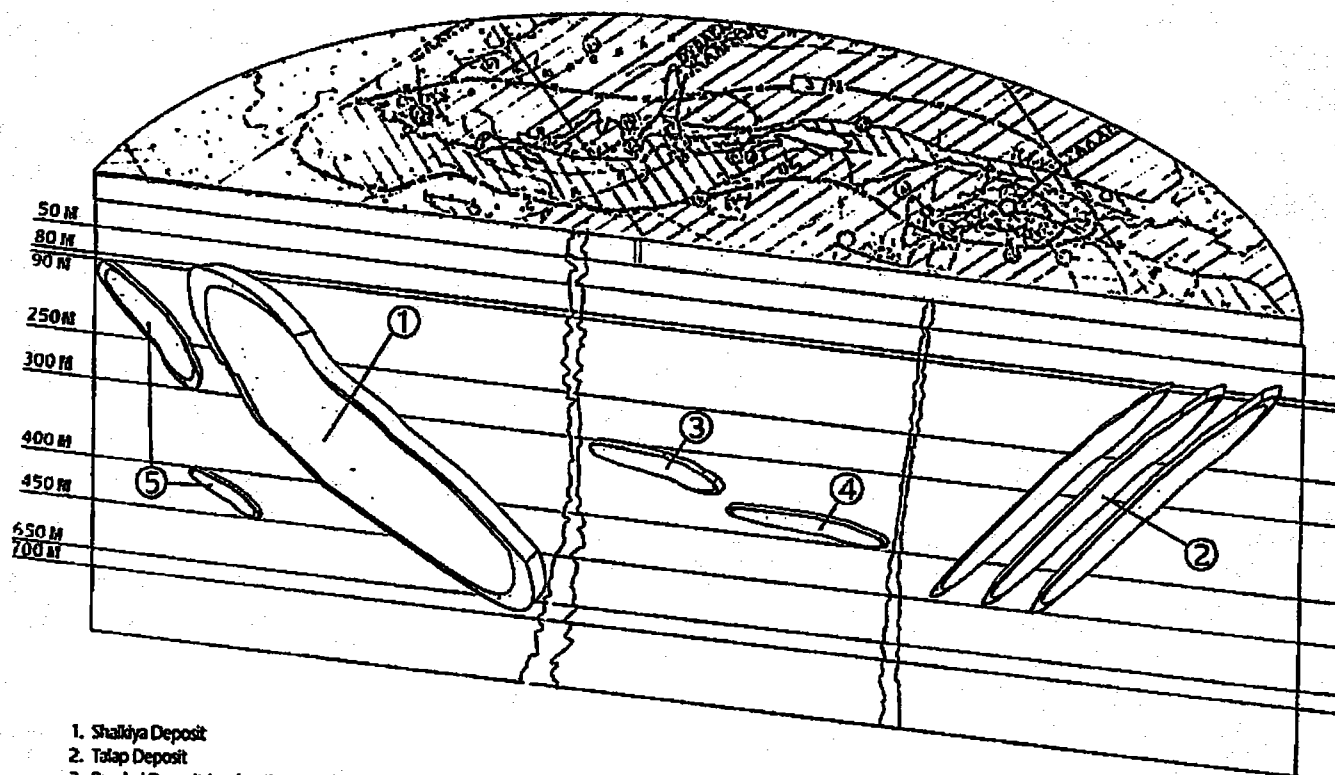
In 2007 AMC Consultants (UK) Ltd restated Talap's Mineral Resource and Ore Reserve in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

TALAP JORC COMPLIANT MINERAL RESOURCES AT 1.5% ZNEQ CUT-OFF AT 31 DECEMBER 2008:

Classification	Type of mineralization	Ore (mt)	Grade (%)		ZnEq (%)
			Pb	Zn	
Indicated	Oxide and mixed	2.3	1.8	3.0	3.9
	Sulphide	17.9	1.6	3.0	3.9
Total Indicated		20.1	1.6	3.0	3.8
Inferred	90% sulphide	4.8	1.2	2.6	3.2

Processing of ore from the Talap Deposit was originally planned at the Kentau concentrator. However, due to the significant decrease in the market zinc prices in 2008 and historically high costs of processing at the Kentau concentrator and high transportation costs production of ore from the Talap Deposit became economically not viable. Accordingly, in 2008, the Company fully impaired the assets of the Talap Deposit.

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

ZINC DEPOSITS

MARKETS AND CUSTOMERS

2008 was marked by significant drops in both the demand and supply of zinc.

The zinc price has fallen significantly from its high at the end of 2006 and hit its low (USD 1,100 per mt) in December 2008. The 2008 average was USD 1,875 per tonne, which is 42% lower than the 2007 average (USD 3,243 per tonne) and 59% lower than the highest zinc price in 2006 (USD 4,580 per tonne). However, starting from January 2009 slow price increases can be observed and average price for January-September 2009 is USD 1,470 per tonne. The same growth trend holds true for lead. We believe that the global demand for zinc, lead by China, is restored, leading to sustained higher prices up to the level of USD 1,903 per tonne from 2012.

Further, the Company has the advantage of convenient logistics in terms of proximity to Chinese, Russian and other Central Asian smelters.

The demand increase restored in China is a good base for the Company's future growth and development.

PRODUCTION

The zinc industry responded quickly to the slump of zinc demand driven by the dramatic decline of global economic growth. In 2008 the Company, like many mining companies worldwide had to decrease levels of ore mined and processed and suspended operations in November 2008. Thus the Company's sales of zinc concentrate were approximately 22% lower than in 2007.

However we strongly believe that these industry adjustments, in the face of a global recession, will lead to a recovery. Having this in view the Company will proceed with its growth and development programme which envisages the construction of the New Processing Plant at Shalkiya Mine. The schedule of construction was amended in accordance with current market conditions. It was decided to make construction in two stages.

Stage 1 envisages the launch of the first 2mtpa line in 2012, with contemporaneous construction of the second 2mtpa line, achieving full 4mtpa capacity in 2015.

We are sure that the construction of the new high capacity plant will improve technological characteristics and concentrates' grades, decrease production costs and thus will make ShalkiyaZinc a highly competitive business in the conditions of the recovering economy.

CONSUMERS OF ZINC CONCENTRATE

Since March 2004 ShalkiyaZinc has sold the majority of its zinc concentrate to the Almaty Smelter in Uzbekistan, located 350 kilometres from the Kentau concentrator. 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 2008 sales to the Almaty Smelter amounted to 21,359 tonnes of zinc concentrate containing 9,500 tonnes of zinc metal (2007: 27,353 tonnes containing 12,300 tonnes of zinc metal). The variance between 2008 and 2007 sales in terms of tonnage and metal content is 22% and 23%, respectively, which testifies to the minor changes of quality of zinc concentrate.

CONSUMERS OF LEAD CONCENTRATE

In 2008 the Company sold most of its output of lead concentrate to China customer 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 2008 overall sales amounted to 4,798 tonnes of lead concentrate containing 1,702 tonnes of lead metal (2007: 7,140 tonnes of lead concentrate containing 2,848 tonnes of lead metal). The variance between 2008 and 2007 sales in terms of tonnage and metal content is 33% and 31%, respectively, which testifies to the minor improvement of quality of lead concentrate.

PRICE FORMATION

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

POTENTIAL CUSTOMERS

Potential ShalkiyaZinc customers are located mainly in Kazakhstan, Russia and China (17 zinc smelters in the southern and south-eastern region), the countries to which ShalkiyaZinc already sells its zinc-lead concentrate. We believe that the improvement of the quality of the concentrate after launching of the New Processing Plant in 2012 will significantly broaden the customer base for ShalkiyaZinc.

CORPORATE SOCIAL RESPONSIBILITY

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. ShalkiyaZinc supports local social programs with annual transfers of USD 8,000 to the local administration, supporting the economic and social development of the region. We cover the schooling costs for two 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.

PROTECTION OF ENVIRONMENT
ShalkiyaZinc in its operational activity is compliant with Kazakh environment protection regulations.

ShalkiyaZinc's production facilities are equipped with new production equipment which minimizes adverse impact on the environment of mine and processing plant operations.

To monitor its impact on the environment ShalkiyaZinc annually conducts an environmental monitoring, which is approved by the Environmental Ministry, costs of the monitoring amounted to USD 5,820 in 2008.

ShalkiyaZinc also invests in environmental protection measures at its production facilities. In 2008 the Company spent USD 227,760, of which USD 42,390 has been invested in upgrading environmental protection measures at the Shalkiya Mine and USD 185,370 at the Kentau concentrator. 77% of the latter (USD 142,980) was the fee paid for disposal and release of pollutants from Bayaldyr tailings dump. Environmental fees amounted to USD 7,510 on the mine and USD 9,180 on the Kentau concentrator.

In compliance with environmental legislation the Company concluded environmental insurance policy and insurance with the insurance coverage of up to USD 183,140 in 2008.

During 2008 authorized agencies conducted five inspections, which resulted in a USD 9,325 fine for the Company. All the breaches of environmental legislation were rectified.

In 2008 and 2007, the Company was a defendant in a legal action involving alleged environmental pollution in the amount of USD 3,218,000. In February 2009, according to the decision of the Collegiate Organ on Civil Affairs of the Southern Kazakhstan Oblast Court the amount claimed from the Company was reduced to USD 1,410,000. Management believes that the action can be successfully defended and therefore no losses will be incurred with respect of the remainder.

FINANCIAL POSITION

At 31 December 2008 the Company's financial position worsened due to the dramatic drop of world metal prices and suspension of the Company's operations. At 31 December 2008, the Group's current liabilities exceeded current assets by USD 6,434,000. At 31 December 2008, the Group's accumulated deficit amounted to USD 45,329,000.

As can be seen from the Group's consolidated balance sheet the Group's total assets decreased by USD 18 million, which was primarily driven by the impairment of non-current assets in the amount of USD 16 million.

PROPERTY, PLANT AND EQUIPMENT

During 2008, the Group continued investing into the construction of the New Processing Plant and modernization of the technological basis of the Shaldya mine. The total investments amounted to USD 11 million, including prepayments of USD 6 million for the supply of equipment.

In 2008, the Group recorded impairment of USD 14 million on the assets of the Kentau concentrator due to the Group's decision to cease the production at this plant.

DEFERRED TAX ASSETS

Management's assessment of the recoverability of the deferred tax assets of USD 7 million is based on the plan to complete the construction of the New Processing Plant and resume production in 2012. Based on the deposit's resources, additional ore studies, and technological and commercial feasibility studies, management believes that the Group will generate sufficient taxable profits starting from 2012 to utilize tax losses carry forward recognized as of 31 December 2008 before they expire.

VAT RECEIVABLE

At 31 December 2008 VAT receivable amounted to USD 7 million. In 2008, the Group made provision for VAT impairment of USD 4 million. At 31 December 2008, VAT receivable of USD 4 million is classified within non-current assets as the Group does not expect reimbursement of this VAT receivable in 2009.

Subsequently in 2009 the Group received USD 3 million, which was classified within current assets, in cash as reimbursement of VAT.

TRADE AND OTHER RECEIVABLES

At 31 December 2008 the Group's trade and other receivables decreased by USD 3 million which was mainly due to the suspension of operations.

BORROWINGS

At 31 December 2008 the Group borrowings increased by USD 20 million. The cash proceeds were mainly used for financing of operating expenses of the Group and payments to suppliers of equipment.

FINANCIAL PERFORMANCE

REVENUE

Revenue in 2008 decreased to USD 11 million which is by 65% lower than the revenue level in 2007. Such decline mainly results from a fall in world prices and decrease in sales volumes. Revenue from concentrate sale comprised 83% from zinc sales and 17% from lead sales.

On average LME zinc price went down by 42% and LME lead price by 19%. Zinc concentrate sales decreased by 22% and production levels decreased by 31% in 2008. As a result cost per tonne of ore increased by 33%. General and administrative expenses, excluding provisions and allowances, increased by 14%.

NET LOSS

Net loss for 2008 was USD 43 million (2007: net loss was USD 3 million). The Company recognized impairment in respect to the assets of Kentau concentrator and Talap exploration costs in the amount of about USD 16 million, impairment of VAT in the amount of USD 4 million and provisions for doubtful accounts and impairment of prepayments and available-for-sale investments in the amount of USD 3 million.

The increase in net loss also reflects 42% decrease in the LME price for zinc concentrate sales.

Increased general and administrative expenses also had a negative impact on the net loss.

COST

Production cost amounted to USD 21 million which is lower by USD 2 million than in the prior period, USD 23 million in 2007. Overall production volumes decrease resulted in a decrease of production costs in 2008.

MATERIALS

Consumables and spare parts decreased by USD 1 million (USD 7 million in 2007 to USD 6 million in 2008). However, costs of consumables and spare parts per tonne increased by 22% due to lower production volumes in 2008.

POWER AND OTHER UTILITY

The cost of power and other utility decreased by USD 0.7 million (USD 3.3 million in 2007 to USD 2.7 million in 2008). However, power and other utility costs per tonne increased by 16% which is mainly due to the decrease in production volumes.

LABOUR COST

Labour costs decreased by USD 0.9 million (USD 4.4 million in 2007 to USD 3.5 million in 2008). However, labour costs per tonne increased by 22% due to the decrease in production volumes.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses, excluding provisions and impairment, increased approximately by 14% from USD 7 million in 2007 to USD 8 million in 2008.

The increase in G&A expenses was mainly observed in payroll and related taxes by USD 1.0 million. Additionally, the Company incurred suspension costs related to suspension of the Kentau concentrator and the Shalkiya Mine of approximately USD 0.9 million in 2008.

Distribution Costs

Distribution costs per tonne decreased by 22% due to decrease in sales volumes by 22%.

Cost per Tonne

The increase in cost per tonne by 33% was mainly due to the lower production volumes. Volume of ore mined in 2008 decreased by 31% and volume of ore processed decreased by 32%.

TAXATION

In 2008, the Company incurred significant losses as a result of the reduction in the production volumes and lower average selling prices for zinc and lead concentrate. Furthermore, the Company recorded impairment on the assets of the Kentau concentrator and Talap exploration costs. Both, significant losses and impairment of property, plant and equipment led to the increase in deferred tax assets by USD 4.3 million. Deferred tax assets recognized on the balance sheet as of 31 December 2008 amounted to USD 6.7 million (2007: USD 2.4 million). Recoverability of the deferred tax assets is based on the plan to complete the construction of the New Processing Plant and to resume production in 2012.

INFLATION RATES

The average rate of inflation in Kazakhstan was 9.5% in 2008 and 18.8% in 2007.

UNITARY BOARD OF DIRECTORS' REPORT

SHALKIYZINC'S UNITARY BOARD OF DIRECTORS COMPRISES:

MARAT SARKYTBAYEV

Executive Member

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

HENK VAN WIJLEN

Executive Member

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.

RAMILIYA AZELGAREYEVA

Executive Member

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

Mrs. Azelgareyeva is also the author of methodological recommendations (instructions) 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.

BAURZHAN BISEMBAYEV

Non-Executive Member

Mr. Bsembbayev is an experienced manager; from 1991 to 2000 he served as a Financial Director and member of the Board of LLP "BATA". Since 1999 he has held the position of First Vice President of JSC "Atyrau refinery plant", then Chairman of the Board. Mr. Bsembbayev served in the National Oil Company "KazakhOil" as a Director of Department Management of ANPZ and as an adviser to the President of the company and gained valuable experience in the development of natural resources. Since 2004 he has been a member of the Board of JSC "KOR". The Company benefits from Mr. Bsembbayev's experience in the natural resources development sector of Kazakhstan, and his financial experience. Mr. Bsembbayev holds no other non-executive board position. Mr. Bsembbayev does not hold any share capital in the Company, and is independent, as defined in the Dutch Corporate Governance Code.

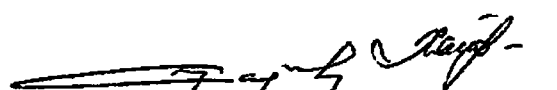
TALGAT ALIMKHANOV

Non-Executive Member

Mr. Talgat Alimkhanov has extensive mining experience. At present, he holds the position of General Director of LLP "Zhety Kazyna". Before that, Mr. Alimkhanov held several similar positions at other companies. He served as President of JSC "Syrymbet" for three years. From 2002 to 2005, Mr. Alimkhanov held the position of General Director of LLP "Corporation KBK". At present he is also a Member of the Supervisory Board of LLP "Zhety Kazyna", and he has managed the process of development of nickel deposits. The Company benefits from Mr. Alimkhanov's experience in managing the process of developing mining deposits, and his management experience. Mr. Alimkhanov holds no other non-executive board position. Mr. Alimkhanov does not hold any share capital in the Company, and is independent, as defined in the Dutch Corporate Governance Code.

Note:

The Board had met three times since its appointment in 2008. Each Director receives a project status report including management comments and other information showing the performance of the Company and its subsidiary and its principal business monthly. The Directors are given a full Board pack with agenda in advance of each meeting of the Board of Directors.


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BOARD COMMITTEES

The Board of Directors has established an Audit Committee, Remuneration and Nominations Committee, and an Executive Committee.

Audit Committee

Its duties include a review of ShalkiyaZinc Annual Report and half yearly reports, the role, scope and performance of the internal control systems of the Company and the external auditors and the independence and objectivity of the external auditors. The Audit Committee focuses particularly on the Company's compliance with legal requirements, accounting standards and the Listing Rules, ensuring that an effective system of financial controls is maintained.

The CFO attends the meetings by invitation. During 2008, the Audit Committee met twice.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for making recommendations to the Board of Directors on the policy on the remuneration of senior management, on reviewing the performance of Executive Directors and senior management. It also considers the composition of the Board of Directors and appointments of Directors, and makes proposals and recommendations to the Board of Directors and the shareholders' meeting on issues related to the composition and nomination of the Board of Directors.

The CEO attends the meetings by invitation. During 2008, the Remuneration and Nomination Committee met once.

Executive Committee

The role of ShalkiyaZinc's Executive Committee is to manage the conduct of mining and processing operations. Each member of the Executive Committee has his or her own area of responsibility and has the duty to develop the operations in accordance with the targets set by the Board of Directors. The Executive Committee meets 1-3 times a month.

During 2008 the Executive Committee consisted of the following:

Marat Sarkytbayev
Executive Director and CEO

Ramiya Azelgareyeva
Executive Director

Henk van Vliet
Executive Director and Company's Secretary

Finally, we would like to express our sincere thanks to the management and all the Company's employees for their efforts in 2008.

The Unitary Board
29 October 2009

FINANCIAL STATEMENT

It is our pleasure to present the 2008 consolidated financial statements of ShalkiyaZinc N.V. as prepared by the Management Board (the "financial statements"). The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The financial statements have been audited by the external auditors, Ernst&Young B.V., and discussed with them on the basis of their report. The independent auditors' report is included on page 24. The independent auditors' report is modified by the emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the events and conditions that cast significant doubts on the Company's ability to continue as a going concern. We approved the financial statements at our meeting on 29 October 2009 and recommend that you approve them as well.

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

CORPORATE GOVERNANCE

17 July 2008 ShalkiyaZinc N.V. implemented a one tier board structure.

The establishment of the Unitary Board, which replaced its former two tier management structure comprising a Supervisory Board and a Management Board, was recommended in a Corporate Governance Review by PricewaterhouseCoopers and approved by the Annual General Meeting of ShalkiyaZinc N.V. on 18 June 2008.

Implementation of the one tier board structure and appointment of the Unitary Board members became effective upon execution of the notarial deed of amendment of the Company's Articles of Association.

According to the Company's Articles of Association, ShalkiyaZinc's Board of Directors already consists of one or more Executive Directors and Non-Executive Directors, only natural persons can be Non-Executive Directors and the Board determines the number of Executive Directors and the number of Non-Executive Directors.

To ensure the correct balance between Executive, Non-Executive and Independent Members of the Unitary Board, the Board is considering appointing a further Non-Executive Member to the Unitary Board, details of whom will be published in due course.

UNITARY BOARD OF DIRECTORS' REPORT

The Dutch Code

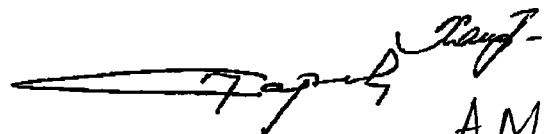
The Dutch Corporate Governance Code (the "Dutch Code") drawn up by the Tabaksblat Commission was published on 9 December 2003 and became effective on 1 January 2004. The Code consists of 21 principles and 113 best practice provisions. The Dutch Code applies to all companies whose registered offices are 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 practice provisions to the greatest possible extent in as short a time as possible.

The Company 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 2009.

Number ii.2 The Company currently does not have a remuneration policy, but this is scheduled to be adopted at the 2009 AGM.

Number iii.7.1 There was an option scheme in place for the Chairman of the Supervisory Board. We believed it was 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 was 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. In 2008, upon the resignation of the Chairman of the Supervisory Board the option scheme was cancelled.


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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

The following statement is made with a view to the respective responsibilities of management in relation to the consolidated financial statements of ShalkyaZinc 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 2008 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") as adopted by the EU.

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 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.

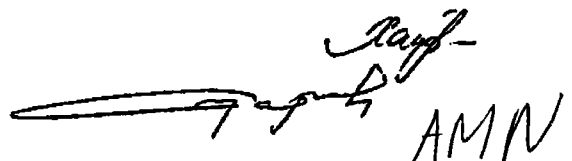
To the best of our knowledge:

- > the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation;
- > the Directors' report gives a true and fair view of the situation at the balance sheet date, the development of the business during the financial year of the Group and of the subsidiary whose information is included in the consolidated financial statements and the expected development of business, with special attention being devoted, inasmuch as no weighty interests preclude this, to the investments and the conditions on which the development of turnover and of profitability depend.

The consolidated financial statements for the year ended 31 December 2008 were approved by management and authorized for issue on 29 October 2009.



Marat Sarikytbayev
General Director



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RISKS AND UNCERTAINTIES

RISKS INHERENT IN MINING OPERATIONS

ShalkiyaZinc's primary business activity involves the mining of zinc and lead. The mining business is subject to risks and hazards many of which are outside ShalkiyaZinc's control.

These risks include, among others, environmental hazards (including discharge of metals, pollutants or hazardous chemicals), industrial and mechanical accidents, labour disruptions, fires, explosions, encountering unusual or unexpected geological formations, cave-ins, flooding, land-slides, power outage and periodic interruptions due to inclement weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, reduced production and delays in mining, asset write-downs, monetary losses and possible legal liability. Although precautions to minimise the risks have and will continue to be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all risks and hazards.

Although ShalkiyaZinc maintains insurance in an amount that it considers to be adequate, liabilities might exceed policy limits, in which event ShalkiyaZinc could incur significant costs that could have a material adverse effect on the business, financial condition or the results of operations at the ShalkiyaZinc. Insurance fully covering many environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to ShalkiyaZinc or to other companies in the mining industry.

VOLATILITY IN COMMODITY PRICES

ShalkiyaZinc's budget and any future revenue will depend on the market price for commodities, especially for zinc and lead. A substantial decline in prices might threaten the economic viability of the ShalkiyaZinc Mine or the benefit of developing the deposits at this stage. The market price for commodities has historically been subject to wide fluctuations and is affected by numerous factors beyond ShalkiyaZinc's control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by producers and others, and actions of participants in the commodities markets.

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 AND CONTROL SYSTEMS

ShalkiyaZinc has a limited operating history and has only had operations since the beginning of 2004. As a result, it is subject to risks, expenses and uncertainties associated with implementing its business plan that are not typically encountered in more mature companies. Any failure to take necessary actions and any weaknesses in the operational and financial systems or managerial controls and procedures of the ShalkiyaZinc may impact ShalkiyaZinc's ability to implement its business plan and may have a material adverse effect on the business, financial condition or results of operations of the ShalkiyaZinc.

CONTROL STATEMENT

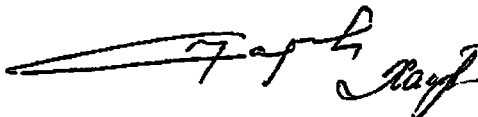
We believe that our internal risk management and control systems are adequate in relation, to the size of the Group's business, and effective. We delegated authority to the Audit Committee to assist us in fulfilling our responsibilities in relation to internal control and financial reporting.

There have been no significant changes in the internal control system during 2008.

FINANCIAL RISKS

We confirm that:

- > our risk management and control systems provide reasonable assurance that the financial reporting contains no material misstatements;
- > the risk management and control systems operated effectively in the year under review; and
- > there are no indications that the risk management and control systems will not operate effectively in the current financial year.


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RISKS AND UNCERTAINTIES RELATING TO SHALKIYA ZINC'S BUSINESS

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.

GOING CONCERN

The Company's future operations are dependent on the successful implementation of management's plan for completion of the construction of the New Processing Plant which requires financing of approximately USD 50 million. The financing of USD 49 million is also required to repay the Company's borrowings and to fund operating costs. The Company's major shareholders, as represented by the Kazakh individuals, and management plan to attract financing through a private placement of additional Company's shares. Management is currently in negotiations with a potential investor about the conditions of the transaction. Also, management is in negotiations with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") regarding the MEMR's waiver of the priority right on acquisition of the Company's shares. Management believes that probability of the transaction and obtaining the waiver from the MEMR and raising additional capital to fund the construction and repayment of the Company's borrowings is highly probable.

Furthermore, 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.

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AUDITOR'S REPORT

To the Unitary Board and shareholders of ShalkiyaZinc N.V.

Report on the Financial Statements

We have audited the accompanying financial statements 2008 of ShalkiyaZinc NV., Rotterdam as included on the pages 25 up to and including 60 of this Annual Report. The financial statements consist of the consolidated financial statements and the Company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, the profit and loss account, 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 comprise the Company balance sheet as at 31 December 2008, 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 2008, and of its result and its cash flows 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 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of USD 42,831 thousand during the year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by USD 6,434 thousand, which amongst others has been caused by a significant decline in the world market prices for the Group's products. As a result the Group suspended its production and the construction of a new ore processing plant.

These conditions, along with other matters as set forth in note 2, indicate the existence of material uncertainties which may cast a significant doubt about the Group's ability to continue as a going concern. Management has taken steps to attract financing through a private placement of shares, however it is still not certain whether this private placement will be realized. Therefore, there continues to be material uncertainty about the ability of the Group to raise the required financing to continue as a going concern.

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 that the majority of information required under 2:391 sub 5 relating to the corporate governance code and the takeover directive have been omitted, except for the in control statement.

Pursuant to the legal requirement under 2:393 sub 5 part f 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.

Zwolle, 29 October 2009
Ernst & Young Accountants LLP

signed by D.L. Groot Zwaartink

SHALKIYAZINC N.V.

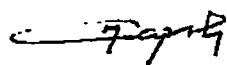
CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended 31 December 2008

in thousands of USD (except as indicated in per share amounts)

	Notes	2008	2007 (restated - see note 5)
Continuing operations			
Revenue	6	11,137	30,300
Cost of sales	7	(21,206)	(21,438)
Gross (loss)/profit		(10,069)	8,862
General and administrative expenses	9	(16,079)	(7,423)
Distribution costs	10	(598)	(769)
Impairment loss	16	(16,045)	-
Operating (loss)/profit		(42,791)	670
Finance income	14	58	441
Finance costs	14	(4,565)	(563)
Foreign exchange gain/(loss), net		261	(1,048)
Other expenses		(128)	(102)
Loss before tax		(47,165)	(602)
Income tax benefit/(expense)	15	4,334	(2,990)
Loss for the period from continuing operations		(42,831)	(3,592)
Discontinued operation			
Profit after tax for the period from a discontinued operation	16	-	100
Loss for the period		(42,831)	(3,492)
Basic and diluted loss per share, US cents	26	(758.07)	(61.81)
Basic and diluted loss per share from continuing operations, US cents	26	(758.07)	(61.81)

The notes on pages 29 to 55 form an integral part of these consolidated financial statements.



Marat Sarkytbayev
General Director



Rufina Khafizova
Deputy Finance Director



Muchabbat Baltursynova
Financial Accounting Manager

SHALKIYAZINC N.V.

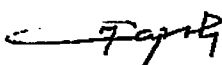
CONSOLIDATED BALANCE SHEET

As at 31 December 2008

in thousands of USD

	Notes	31 December 2008	31 December 2007 (restated - see note 5)
Assets			
Non-current assets			
Property, plant and equipment	17	40,510	53,740
Exploration costs	18	-	1,494
Long-term portion of VAT receivable	20	3,705	4,459
Prepayments for non-current assets	21	5,765	3,940
Restricted cash deposit	25	147	72
Deferred tax asset	15	6,733	2,401
		56,860	66,106
Current assets			
VAT receivable	20	2,942	3,936
Inventories	22	5,551	7,180
Trade and other receivables	23	331	3,287
Prepayments	21	353	918
Available-for-sale investments	24	-	1,773
Cash and cash equivalents	25	502	1,518
		9,679	18,612
Total assets		66,539	84,718
Equity and liabilities			
Equity			
Issued capital	26	83	83
Share premium		62,164	61,355
Foreign currency translation reserve	26	3,091	3,450
Net unrealized loss reserve	26	-	(347)
Equity settled employee benefits reserve	27	-	165
Accumulated deficit		(45,329)	(2,498)
		20,009	62,208
Non-current liabilities			
Borrowings	28	22,633	4,210
Provision for future site restoration	29	3,697	2,241
Due to the Republic of Kazakhstan	30	2,200	1,906
Long-term trade payables	31	1,887	2,770
		30,417	11,127
Current liabilities			
Current portion of borrowings	28	7,866	6,274
Trade and other payables	31	7,096	4,567
Taxes payable other than income tax		496	216
Advances received		655	326
		16,113	11,383
Total equity and liabilities		66,539	84,718

The notes on pages 29 to 55 form an integral part of these consolidated financial statements.



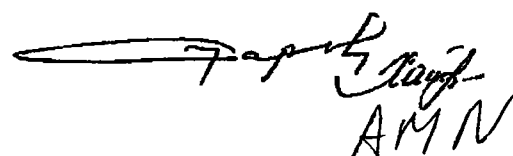
Marat Sarkytbayev
General Director



Rufina Khafizova
Deputy Finance Director



Muchabbat Baltursynova
Financial Accounting Manager


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SHALKIYAZINC N.V.

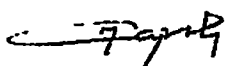
CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

In thousands of USD

	Notes	2008	2007 (restated - see note 5)
Operating activities			
Loss before tax from continuing operations		(47,165)	(602)
Profit before tax from discontinued operations		-	143
		(47,165)	(459)
Adjustments for:			
Impairment of property, plant and equipment and exploration costs	17, 18	16,045	-
Impairment of available-for-sale investments	24	2,111	-
Provision for slow-moving inventories	22	273	296
Provision for doubtful accounts and advances paid	21, 23	1,002	262
Impairment of VAT receivable	20	4,311	-
Depreciation	17	3,647	2,908
Equity settlement	27	(165)	101
Loss on disposal of property, plant and equipment		250	298
Gain on disposal of subsidiary		-	(257)
Finance income		(58)	(441)
Finance costs		4,565	563
Foreign exchange (gain)/loss		(269)	319
Operating (loss)/gain before working capital changes		(15,453)	3,590
Decrease/(increase) in trade and other receivables		2,499	(3,317)
Decrease/(increase) in inventories		1,326	(3,917)
Increase in VAT receivable		(2,563)	(4,277)
Increase in prepayments		(45)	(3,803)
Increase in trade and other payables		757	9,551
Increase in taxes payable		280	14
Increase in advances received		329	288
Net cash outflow from operations		(12,870)	(1,871)
Interest paid	28	(177)	(251)
Net cash outflow from operating activities		(13,047)	(2,122)
Investing activities			
Purchase of property, plant and equipment		(690)	(33,813)
Proceeds from disposal of property, plant and equipment		-	250
Increase in exploration costs		(70)	(23)
Consideration from disposal of subsidiary		-	215
Interest received		120	379
Restricted cash deposit		(76)	(23)
Prepayments for non-current assets		(5,765)	(3,941)
Purchase of available-for-sale investments		-	(1,854)
Net cash outflow from investing activities		(6,481)	(38,810)
Financing activities			
Proceeds from borrowings	28	18,480	7,567
Repayment of borrowings	28	(780)	(799)
Reimbursement of IPO issuance costs	26	809	-
Net cash inflow from financing activities		18,509	6,768
Net decrease in cash and cash equivalents		(1,019)	(34,164)
Cash and cash equivalents, beginning of the year	25	1,518	34,526
Effect of exchange rate changes		3	1,156
Cash and cash equivalents, end of the year	25	502	1,518

The notes on pages 29 to 55 form an integral part of these consolidated financial statements.


Marat Sarkytbayev
General Director


Rufina Khafizova
Deputy Finance Director

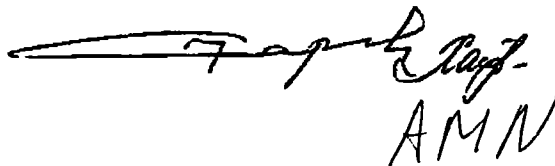

Muchabbat Baltursynova
Financial Accounting Manager

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Shalkiyazinc N.V.
Annual Report and Accounts 2008

For identification purposes

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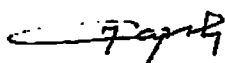
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

in thousands of USD

	Share capital	Share premium	Foreign currency translation reserve	Net unrealized loss reserve	Equity settled employee benefits reserve	Retained earnings/(accumulated deficit)	Total
At 1 January 2007	73	61,355	(113)	-	64	994	62,373
Translation differences	10	-	3,563	-	-	-	3,573
Unrealised loss on available-for-sale investments	-	-	-	(347)	-	-	(347)
Net income and expense for the year recognised directly in equity	10	-	3,563	(347)	-	-	3,226
Loss for the period (as restated, note 5)	-	-	-	-	-	(3,492)	(3,492)
Total income and expense for the year	10	-	3,563	(347)	-	(3,492)	(266)
Share-based payments (note 27)	-	-	-	-	101	-	101
At 31 December 2007 (as restated, note 5)	83	61,355	3,450	(347)	165	(2,498)	62,208
Translation differences	-	-	(359)	-	-	-	(359)
Unrealized loss on available-for-sale investments (note 24)	-	-	-	(29)	-	-	(29)
Net realized losses on available-for-sale investments (note 24)	-	-	-	376	-	-	376
Reimbursement of IPO issuance costs (note 26)	-	809	-	-	-	-	809
Net income and expense for the year recognised directly in equity	-	809	(359)	347	-	-	797
Loss for the period	-	-	-	-	-	(42,831)	(42,831)
Total income and expense for the year	-	809	(359)	347	-	(42,831)	(42,034)
Derecognition of share-based payments (note 27)	-	-	-	-	(165)	-	(165)
At 31 December 2008	83	62,164	3,091	-	-	(45,329)	20,009

The notes on pages 29 to 55 form an integral part of these consolidated financial statements.



Marat Sarkytbayev
General Director



Rufina Khafizova
Deputy Finance Director



Muchabbat Baitursynova
Financial Accounting Manager

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. Corporate Information

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 Company is the sole shareholder of LLP ShalkiyaZinc Ltd ("LLP ShalkiyaZinc Ltd" or the "Subsidiary"). The Company and its Subsidiary together are further referred to as the Group.

The Company became listed on 14 December 2006 at the London Stock Exchange by issuing Global Depositary Receipts (GDRs).

The ultimate beneficial shareholders of the Company are as follows:

- Kazakh individuals:
 - Rifat Rizoyev (49.88%);
 - Assylbek Aburov (11.17%);
 - Marat Sarkytbayev and Samat Kazymov (jointly own 13.40%).
- Listed on the London Stock Exchange (25.55%).

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 region of the Republic of Kazakhstan. The Subsidiary operates the Shalkiya Mine and the Kentau concentrator. 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 "Shalkiya Subsurface Use Contract").

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 "Talap Subsurface Use Contract"). The term of the Talap Subsurface Use Contract is 20 years.

The consolidated financial statements were authorised for issue on 29 October 2009 by the General Director, Deputy Finance Director and Financial Accounting Manager of the Group.

2. Basis of Preparation

Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU issued by the International Accounting Standards Board ("IASB").

Operating Environment

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. The Group incurred a net loss of USD 42,831 thousand and USD 3,492 thousand for the years ended 31 December 2008 and 2007, respectively. At 31 December 2008, the Group's current liabilities exceeded current assets by USD 6,434 thousand. At 31 December 2008, the Group's accumulated deficit amounted to USD 45,329 thousand (2007: USD 2,498 thousand). The main reason for the net loss is a significant decline in the world market prices for the Group's products and high costs of processing and transportation. As a result the Group suspended its production in November 2008. Also, the Group suspended construction of a new ore processing plant which started in 2008.

Furthermore, in 2009, the Group is in default under the BTA Bank loan contracts which gives BTA Bank the right to require the accelerated repayment of the borrowings in the amount of USD 30,499 thousand (notes 28 and 37).

The Group's ability to continue as a going concern is dependent on the ability to raise financing:

- i) to finalize the construction of the New Processing Plant; and
- ii) to repay the Group's borrowings.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

2. Basis of Preparation continued

Per management's assessment processing of the ore on the existing Kentau concentrator (the "old processing plant") is economically not viable due to the significant physical deterioration of the old processing plant, its low productivity, high maintenance and labor costs, and its distance from the Shalkiya Mine. These factors led to the historically high processing and transportation costs that have not been recoverable since the significant decrease in zinc market prices resulting from the 2008 global economic crisis. As at 31 December 2008 the Group's capital expenditure related to the construction of the New Processing Plant amounted to USD 29,034 thousand, including USD 5,765 thousand in prepayments. Per management's assessment the Group would need an additional USD 50 million to complete the construction. The New Processing Plant is to be equipped with innovative processing technology and equipment. Projected annual productivity of the New Processing Plant is 2 million tonnes, while the actual productivity of the old processing plant was 440 thousand tonnes. Also, the New Processing Plant is built at the location of the Shalkiya Mine and therefore, unlike the old processing plant would not require transportation of the ore from the mine to the plant and related transportation costs. The Group's management projects a gross margin of 31% at USD 1,903 per tonne zinc market price, which means that the operations of the New Processing Plant would be profitable even at the current level of zinc market prices. Estimated timing required to complete the construction is two years.

The Group's borrowings amounted to USD 30,499 thousand as at 31 December 2008 with the amount of USD 7,866 thousand scheduled for payment in 2009.

Thus, there is a material uncertainty related to the ability of the Group to raise required financing, which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management's Plan

The completion of the construction of the New Processing Plant requires financing of approximately USD 50 million. Also, the financing is required to repay the Group's borrowings and to fund operating costs (mainly general and administrative expenses). Per management assessment the total amount of required financing is USD 99 million. The Group's major shareholders, as represented by the Kazakh individuals, and management plan to attract financing through a private placement of additional Group's shares.

Management is currently in negotiations with a potential investor about the conditions of the transaction. Also, management is in negotiations with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") regarding the MEMR's waiver of the priority right on acquisition of the Group's shares. Management believes that probability of the transaction and obtaining the waiver from the MEMR and raising additional capital to fund the construction and repayment of the Group's borrowings is highly probable.

Functional and Presentation Currency

The functional currency of the Company and the Subsidiary is the Kazakhstan Tenge. Determination of the functional currency is based on operational and financing activities, which are all denominated in Tenge, except for sale contracts which are denominated in USD due to the use of world market prices quoted at the LME. 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. The Group uses USD for presentation of its financial statements and their publishing on the international markets as the Tenge is not fully convertible and recognizable currency in the international markets. The Group's revenues are generated in USD as the sales contracts are denominated in USD due to use of world market prices quoted at the LME. As at the reporting date, the assets and liabilities of the Group are translated into the presentation currency at the rate of exchange ruling at the balance sheet date and its statement of operations is translated at the weighted average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). The exchange differences arising on the translation are taken directly to equity.

3. Significant Accounting Policies

Changes in Accounting Policy and Disclosure

The accounting policies adopted are consistent with those of the previous financial year, except as discussed below.

The Group has adopted the following new and amended IFRS and IFRIC Interpretations as of 1 January 2008. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions;
- IFRIC 12 – Service Concession Arrangements;
- IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

The Group has early adopted IAS 23 Borrowing Costs (Revised) as of 1 January 2008. The revised IAS 23 requires the Group to capitalize borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Adoption of this standard had no effect on the financial performance and position of the Group as the Group applied the allowed alternative treatment with the same requirements.

Improvement to IFRSs 2008

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has early adopted the following amendments to the standards:

- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. This amendment had no effect on the financial position of the Group.
- IAS 16 Property Plant and Equipment: Replace the term "net selling price" with "fair value less cost to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 28 Investment in Associates: If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group.
- IAS 31 Interest in Joint ventures: If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less costs to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". This amendment has no immediate impact on the financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using "value in use".
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group has the right to access the goods or has received the service. This amendment has no impact on the Group.

IFRSs and IFRIC Interpretations Not Yet Effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 Revised Share-based Payment effective for annual periods beginning on or after 1 January 2009;
- IFRS 8 Operating Segments effective for annual periods beginning on or after 1 January 2009;
- IFRIC 13 Customer Loyalty Programmes effective for annual periods beginning on or after 1 July 2008;
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements effective for annual periods beginning on or after 1 July 2009;
- IFRS 3R Business Combinations and 27R Consolidated and Separate Financial Statements effective for annual periods beginning on or after 1 July 2009;
- IAS 1 Revised Presentation of Financial Statements effective for annual periods beginning on or after 1 January 2009;
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation effective for annual periods beginning on or after 1 January 2009;
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective for annual periods beginning on or after 1 July 2009;
- IFRIC 15 Agreement for the Construction of Real Estate effective for annual periods beginning on or after 1 January 2009;
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective for annual periods beginning on or after 1 October 2008;
- IFRIC Interpretation 17 Distributions of Non-Cash Assets to Owners effective for annual periods beginning on or after 1 July 2009;
- IFRIC Interpretation 18 Transfers of Assets from Customers effective for annual periods beginning on or after 1 July 2009;
- Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments effective for annual periods beginning on or after 1 January 2009;
- Amendments to IFRS 2 Share-based Payment effective for annual periods beginning on or after 1 January 2010;
- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for annual periods ending on or after 30 June 2009.

The Group anticipates that the adoption of these amendments in future periods will have no material impact on the financial position or performance of the Group. The adoption of IAS 1 Revised Presentation of Financial Statements and IFRS 8 Operating Segments will result in the changes in the presentation of the financial statements and the new required disclosures.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Improvement to IFRSs 2009

In April 2009, the IASB issued its second omnibus of amendments to its standards. The Group has not yet adopted these amendments and anticipates that these changes will have no material effect on the financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its Subsidiary as at 31 December 2008.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the Subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. 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 statement of operations 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 depreciated by charges against earnings from future mining operations. Development assets are measured at cost. Upon commencement of production, exploration and development costs are depreciated over the life of the mine, which is estimated at a maximum of 25 years.

Depreciation of assets under construction commences when the assets are available for use. Depreciation is charged so as to write off the cost of assets, other than assets under construction and land, 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
Vehicles	7-9 years
Machinery and equipment (except for flotation machines)	6-7 years
Other property, plant and equipment	8-10 years

The flotation machines are depreciated based on the total production capacity of these machines using the unit of production method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

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 costs 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.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Impairment of Non-financial Assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Company makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted-average cost method. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

The net cost of production per unit of finished goods 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 finished goods.

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

Provisions

Site Restoration Provisions

Site restoration provisions are made in respect of the estimated future costs of mine closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and recognized in the statement of operations as a finance cost. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or operating life.

Other Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Financial Assets

Initial Recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition.

All regular way purchases and sales of financial assets are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of operations when the investments are derecognised or impaired, as well as through the amortization process.

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 held to maturity, loans and receivables and at fair value through profit and loss. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in the statement of operations.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of operations when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Amortized Cost of Financial Instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortised Cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the statement of operations.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of operations.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or the period for allowed claims has expired.

Available-for-sale Financial Investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of operations, is transferred from equity to the statement of operations. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of operations. Reversals of impairment losses on debt instruments are reversed through the statement of operations, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

Financial Liabilities

Interest Bearing Loans and Borrowings

All loans and borrowings are initially recognised at fair value and directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of operations when the liabilities are derecognised as well as through the amortisation process.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Trade and Other Payables

Liabilities for trade and other amounts payable are initially recognized at fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Group. Trade and other amounts payable are subsequently measured at amortized cost using the effective interest method.

Due to the Republic of Kazakhstan

Liabilities for due to the Republic of Kazakhstan are initially recognized at fair value of the amounts to be paid in future for historical costs under the subsoil use contracts. These historical costs are related to the costs incurred by the Republic of Kazakhstan in connection with exploration and evaluation of activities in the mines. These liabilities are subsequently measured at amortized cost using the effective interest method.

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 and liabilities are presented as non-current as they are not expected to be realized or settled within 12 months.

Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset 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 asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of operations.

Offsetting of Financial Instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value of Financial Instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

3. Significant Accounting Policies continued

Revenue

Revenue is recognized when significant risks and rewards 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, net of discounts and Value Added Tax ("VAT").

Value Added Tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

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, exercise 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 initially recognized at fair value and remeasured at each balance sheet date.

Taxation

Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan and the Netherlands. Deferred taxes are provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax liabilities 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.

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.

Foreign Currency Translation

Transactions in currencies other than 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 on the balance sheet date. All translation differences are included in the consolidated statement of operations for the period.

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.

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 statement of operations.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

4. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these judgements, assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Useful Economic Lives of Property, Plant and Equipment – The Group's mining and non-mining property, plant and equipment are depreciated on the unit of production method or straight-line basis over their useful economic lives or life of mine whichever is shorter. The unit of production method is applied to the flotation machines based on their estimated production capacity of 72 million tonnes over the useful life. Production capacity of the flotation machines is estimated by the reference to the historical performance and manufacturer specifications. 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 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 – note 19 outlines the significant assumptions made in performing impairment testing of non-current assets. Changes in these assumptions may alter the results of impairment testing, impairment charges recorded in the statement of operations and the resulting carrying values of assets.

Allowances – The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. Details are contained in note 23.

Deferred Tax Assets – Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details are contained in note 15.

Taxation – In assessing tax and legal risks, management considers the known areas of tax or legal positions which the Group would not appeal or does not believe it could successfully appeal as probable obligations, if assessed by tax or legal authorities. Such determinations inherently involve significant judgement and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax or legal proceedings and the outcome of ongoing compliance audits by tax authorities.

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

Fair Value of Derivative – The fair value of derivative 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 at each balance sheet date. The Group uses discounted cash flow analysis for valuation of derivatives that are not traded in active markets.

5. Restatement

In the course of the preparation of the financial statements for the year ended 31 December 2008, the Group identified a prior period error. As a result of capitalizing certain general and administrative expenses, construction in progress was overstated by USD 590 thousand and deferred tax asset and accumulated deficit were understated by USD 123 thousand and USD 467 thousand, respectively, at 31 December 2007. This error was corrected by restating the comparative information as at and for the year ended 31 December 2007. As a result of correction of this error general and administrative expenses increased by USD 590 thousand, income tax expense decreased by USD 123 thousand and net loss for the period increased by USD 467 thousand for the year ended 31 December 2007.

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

5. Restatement continued

In addition 2007 financial statements have been restated for the effect of the following reclassifications:

In thousands of USD	Amount
Consolidated balance sheet as at 31 December 2007	
Reclassification of prepayments to prepayments for long-term assets	3,440
Off-set of trade and other payables by prepayments for long-term assets	7,286
Reclassification of other accounts receivable to trade and other receivables	354
Reclassification of accrued fees to trade and other payables	185
Reclassification of other current liabilities to trade and other payables	6,336
Reclassification of construction materials from inventories to property, plant and equipment	1,115
Off-set of restricted cash by long-term borrowings*	14,748
Reclassification of non-current portion of trade payables to long-term trade payables	3,734
Reclassification of net unrealized loss reserve from legal reserves	347
Offset of long-term trade payables with construction in progress	964

* As previously reported as of 31 December 2007 the Company recognized restricted cash and borrowings in the amount of USD 14,748 in relation to the irrevocable letter of credit issued by BTA Bank to the Company's suppliers. In the course of preparation of 2008 consolidated financial statements the Company reassessed IAS 39 recognition criteria and restated comparative information to off-set restricted cash and borrowings previously recognised.

The 2007 consolidated cash flow statement has been restated for the effect of the exclusion of foreign exchange differences of USD 3,384 thousand from the financing activities.

None of the above reclassifications impacted net loss or equity.

6. Revenue

In thousands of USD	2008	2007
Sales of zinc concentrate	9,243	27,876
Sales of lead concentrate	1,894	2,424
Sales of crushed stones	-	659
	11,137	30,959
Attributable to:		
Continued operations	11,137	30,300
Discontinued operations	-	659
	11,137	30,959

7. Cost of Sales

In thousands of USD	2008	2007
On-mine and processing costs (note 8)	13,092	15,622
Ore transportation expenses	4,036	4,268
Other expenses	1,172	586
Operating cost before depreciation	18,300	20,476
Depreciation	2,840	2,627
Cost of production	21,140	23,103
Change in finished goods and work-in-progress	66	(1,214)
Cost of sales	21,206	21,889
Attributable to:		
Continued operations	21,206	21,438
Discontinued operations	-	451
	21,206	21,889

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

8. On-mine and Processing Costs

In thousands of USD	2008	2007
Consumables and spare parts	5,810	6,866
Labour	3,066	3,926
Power and other utility costs	2,751	3,450
Maintenance of property, plant and equipment	575	381
Taxes other than income tax	390	485
Third party services	500	514
	13,092	15,622

9. General and Administrative Expenses

In thousands of USD	2008	2007 (restated - see note 9)
VAT Impairment	4,311	-
Payroll and related taxes	2,849	1,988
Provision for doubtful accounts and impairment of prepayments and available-for-sale investments	3,115	160
Consulting services	1,659	1,959
Suspension losses	887	-
Taxes other than income tax	976	1,024
Depreciation	292	281
Provision for obsolete inventory	273	296
Business trip expenses	253	207
Materials	179	227
Communication	175	116
Rent	148	144
Bank charges	106	176
Other	856	1,027
	16,079	7,605
Attributable to:		
Continued operations	16,079	7,423
Discontinued operations	-	182
	16,079	7,605

Suspension losses of USD 887 thousand represent expenses incurred on the suspension of the Shalkiya Mine and Kentau concentrator in November 2008. Suspension losses include payments to employees upon termination of their employment (USD 188 thousand), depreciation of property, plant and equipment (USD 515 thousand) and mine maintenance expenses (USD 184 thousand).

10. Distribution Costs

In thousands of USD	2008	2007
Railway services	420	704
Packaging expenses	98	108
Other	80	95
	598	907
Attributable to:		
Continued operations	598	769
Discontinued operations	-	138
	598	907

SHALKIYAZINC N.V.
NOTES TO THE CONSOLIDATED
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For the year ended 31 December 2008

11. Personnel Expenses

In thousands of USD	2008	2007
Salaries and wages	6,103	5,914
Payroll taxes	859	808
	6,962	6,722
Attributable to:		
Continued operations	6,962	6,588
Discontinued operations	-	134
	6,962	6,722

12. Average Number of Employees in FTE

	2008	2007
Directors	8	8
Kentau concentrator	334	380
Shalkiya Mine	519	638
Administrative personnel	79	82
	940	1,108

13. Depreciation

In thousands of USD	2008	2007
Mine development costs	108	121
Buildings and construction	477	387
Machinery and production equipment	2,918	2,271
Vehicles	68	38
Other	76	91
	3,647	2,908
Attributable to:		
Continued operations	3,647	2,840
Discontinued operations	-	68
	3,647	2,908

14. Finance Income and Costs

In thousands of USD	2008	2007
Finance income		
Interest income related to available-for-sale investments	58	235
Interest income from bank deposits	-	206
	58	441
Finance costs		
Interest expense on BTA Bank borrowings and commissions	3,720	270
Unwinding of discount on provision for future site restoration (note 29)	274	190
Unwinding of discount on long-term trade payables (note 31)	326	-
Unwinding of discount on due to the Republic of Kazakhstan (note 30)	245	103
	4,565	563

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NOTES TO THE CONSOLIDATED
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For the year ended 31 December 2008

15. Income Tax

Income tax benefit/(expense) comprised the following:

In thousands of USD	2008	2007 (restated - see note 5)
Deferred income tax benefit/(expense)	4,334	(2,791)
Current income tax expense	-	(242)
	4,334	(3,033)
Attributable to:		
Continued operations	4,334	(2,990)
Discontinued operations	-	(43)
	4,334	(3,033)

A numerical reconciliation between tax (benefit)/expense and the product of accounting loss multiplied by the applicable tax rate was as follows for the year ended 31 December:

In thousands of USD	2008	2007 (restated - see note 5)
Loss before tax from continuing operations	(47,165)	(602)
Profit before tax from a discontinued operation	-	143
Loss before income tax	(47,165)	(459)
Statutory tax rate	30%	30%
Theoretical income tax at statutory tax rate	(14,150)	(138)
Change in unrecognised tax losses	(698)	2,099
Non-deductible expenses	2,761	1,115
Income tax exempt revenue	-	(43)
Reduction in deferred tax assets resulting from reduction in tax rate	7,753	-
Income tax (benefit)/expense	(4,334)	3,033
Attributable to:		
Continued operations	(4,334)	2,990
Discontinued operations	-	43
	(4,334)	3,033

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

15. Income Tax continued

Deferred income tax at 31 December relates to the following:

in thousands of USD	Consolidated balance sheet		Consolidated statement of operations	
	2008	2007 (restated – see note 5)	2008	2007 (restated – see note 5)
Deferred tax assets				
Property, plant and equipment and exploration costs	1,788	–	1,788	(389)
Long-term payable	95	289	(194)	289
Allowance for doubtful debts	62	170	(108)	170
Tax losses carried forward	5,432	3,698	1,734	(953)
Accruals and provisions	203	267	(64)	(292)
	7,580	4,424	3,156	(1,175)
Deferred tax liabilities				
Property, plant and equipment and exploration costs	–	(967)	967	(560)
Intercompany loan	(847)	(1,056)	209	(1,056)
	(847)	(2,023)	1,176	(1,616)
Total net deferred tax assets	6,733	2,401	4,332	(2,791)

Deferred tax assets are recognised for all deductible temporary differences and carry forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Management's assessment of recoverability of the deferred tax assets is based on the plan to complete the construction of the New Processing Plant and resume production in 2012 (note 2). Based on our deposit's resources, additional external ore studies, and external technological and commercial feasibility studies, management believes that the Group will generate sufficient taxable profits starting from 2012 to utilize tax losses carry forward recognized as of 31 December 2008 before they expire.

The carrying value of recognised tax losses at 31 December 2008 was USD 36,213 thousand (2007: USD 12,327 thousand) and the unrecognised tax loss at 31 December 2008 was USD 6,967 thousand (2007: USD 6,667 thousand). According to Kazakhstan tax legislation, tax losses can be carried forward for seven years from the date of their origination. The unrecognized tax losses were originated in the periods before 2005.

The foreign exchange gain or loss and interest on intercompany loan are income tax deductible in Kazakhstan and exempt from corporate income tax in the Netherlands.

The movements in the deferred tax assets were as follows for the years ended 31 December:

in thousands of USD	2008		2007 (restated – see note 5)	
	2008	2007	2008	2007
At 1 January			2,401	5,192
Charged to the consolidated statement of operations	4,334		(2,990)	
Discontinued operation	–		(43)	
Translation difference	(2)		242	
At 31 December	6,733	2,401		

In December 2008 the Government of the Republic of Kazakhstan approved amendments to the tax code effective 1 January 2009, in accordance to which the statutory income tax rates are changed to 20% in 2009, 17.5% in 2010 and 15% from 2011 onwards. The Group's calculation of deferred tax and income tax expense reflects these changes in the tax law.

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16. Discontinued Operation

In 2007 the Group disposed of its wholly-owned subsidiary, Stone Crushing Plant, which was considered as a separate major line of business. Major classes of assets and liabilities of Stone Crushing Plant as of the date of disposal were as follows:

In thousands of USD

Property, plant and equipment	1,713
Exploration costs	404
Inventories	259
VAT receivable	196
Prepayments	3,600
Trade and other receivables	98
Cash and cash equivalents	187
Total assets	6,457
Trade and other payables	6,307
Taxes payable	6
Total liabilities	6,313
Net assets disposed	144
Exchange gain	4
Gain on disposal	257
Consideration received in cash	405
Consideration received in cash	405
Cash disposed with the subsidiary	(187)

The results of Stone Crushing Plant for the period from 1 January 2007 to 30 June 2007 were as follows:

In thousands of USD

Revenue	659
Cost of sales	(451)
Gross profit	208
General and administrative expenses	(182)
Distribution costs	(138)
Other expenses	(2)
Loss before income tax	(114)
Tax benefit	34
Net loss for the period	(80)
Gain on disposal of subsidiary	257
Attributable income tax expense	(77)
Profit after tax for the period from discontinued operations	100

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17. Property, Plant and Equipment

In thousands of USD	Land	Mine development costs	Buildings and construction	Machinery and production equipment	Vehicles	Other	Construction in progress (restated - see note 5)	Total
Cost								
At 1 January 2007	45	4,267	3,977	12,158	365	614	3,054	24,480
Additions (restated)	5	56	42	3,986	319	115	34,437	38,960
Transfers	-	310	617	10,380	1	(6)	(11,302)	-
Disposal of subsidiary Disposals	(5)	-	(26)	(1,187)	(91)	(13)	(589)	(1,911)
Translation difference	3	192	268	(263)	(58)	(32)	(137)	(490)
				677	21	34	170	1,365
At 31 December 2007	48	4,825	4,878	25,751	557	712	25,633	62,404
Additions	-	-	1,189	1,599	1	61	2,467	5,317
Transfers	-	-	192	3,293	4	7	(3,496)	-
Disposals	-	(82)	(52)	(331)	-	(3)	(32)	(500)
Translation difference	(1)	(15)	(24)	(122)	(3)	(3)	(102)	(270)
At 31 December 2008	47	3,895	7,016	30,190	559	774	24,470	66,951
Accumulated depreciation and impairment								
At 1 January 2007	-	(549)	(832)	(4,122)	(107)	(167)	-	(5,777)
Depreciation charge	-	(121)	(387)	(2,271)	(38)	(91)	-	(2,908)
Disposal of subsidiary Disposals	-	-	-	185	-	13	-	198
Translation difference	-	-	-	137	24	27	-	188
	-	(14)	(63)	(272)	(6)	(10)	-	(365)
At 31 December 2007	-	(684)	(1,282)	(6,343)	(127)	(228)	-	(8,664)
Depreciation charge	-	(108)	(477)	(2,918)	(68)	(76)	-	(3,647)
Impairment (note 19)	-	-	(1,569)	(11,544)	(48)	(124)	(1,207)	(14,492)
Disposals	-	-	35	212	-	3	-	250
Translation difference	-	3	13	87	1	2	6	112
At 31 December 2008	-	(789)	(3,280)	(20,506)	(242)	(423)	(1,201)	(26,441)
Net book value								
At 31 December 2007	48	4,141	3,596	19,408	430	484	25,633	53,740
At 31 December 2008	47	3,939	2,903	9,684	317	351	23,269	40,510

Property, plant and equipment with a net carrying value of USD 17,795 thousand and USD 6,376 thousand, at 31 December 2008 and 31 December 2007, respectively, have been pledged to secure Group borrowings (note 28).

Due to the suspension of the operating activities in November 2008, the Group stand-by its mining and processing related property, plant and equipment.

Additions to property, plant and equipment include the amount of USD 1,192 thousand related to the change in estimate of site restoration costs (note 29).

In 2008, the Group was in default of scheduled payments to a supplier of fixed assets. In 2009, the supplier imposed limitations on the use of delivered equipment with the carrying amount of USD 3,439 thousand (note 31).

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18. Exploration Costs

In thousands of USD

	2008	2007
Balance at the beginning of the period	1,494	1,777
Additions	70	23
Sale of subsidiary	-	(404)
Impairment (note 19)	(1,553)	-
Translation difference	(11)	98
Balance at the end of the period	-	1,494

19. Impairment

The Group performed impairment test for its property, plant and equipment related to the Shalkiya Mine and New Processing Plant (the Shalkiya CGU), the assets related to the Kentau concentrator and exploration costs related to the Talap field.

The Shalkiya CGU

The recoverable amount of the Shalkiya CGU has been determined based on a value in use ("VIU") calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Cash flows beyond the five-year timeframe are extrapolated by applying a flat growth rate for the term of the Shalkiya Subsurface Use Contract. No impairment was recorded for the Shalkiya CGU as its VIU was higher than its carrying value.

The Kentau Concentrator and the Talap Exploration Costs

The global economic recession has resulted in, among other things, reduced zinc market prices and, as a result, suspension of the Group's production and selling activities (refer to the going concern discussion in note 2). Furthermore, uncertainties regarding the future operation of the Kentau concentrator and high processing and transportation costs resulted in reassessment of the profitability of the Talap field. As a result, at 31 December 2008, the Group fully impaired the Kentau concentrator and Talap exploration costs with the carrying value of related property, plant and equipment and exploration costs amounted to USD 16,045 thousand due to the management's decision to cease production on the Kentau concentrator.

20. VAT Receivable

At 31 December 2008 VAT receivable amounted to USD 6,647 thousand (2007: USD 8,395 thousand). In 2008, the Group made provision for VAT impairment of USD 4,311 thousand. At 31 December 2008, VAT receivable of USD 3,705 thousand is classified within non-current assets as the Group does not expect reimbursement of this VAT receivable in 2009 (2007: USD 4,459 thousand).

21. Prepayments

In thousands of USD

	2008	2007
Prepayments for equipment and machinery	6,013	3,940
Prepayments for consumables and services	878	1,081
Less: Impairment	(773)	(163)
	6,118	4,858
Classified as:		
Non-current assets	5,765	3,940
Current assets	353	918
	6,118	4,858

The movements in the impairment allowance were as follows for the years ended 31 December:

In thousands of USD

	2008	2007
Allowance at the beginning of the year	(163)	(5)
Charge for the year	(610)	(158)
Allowance at the end of the year	(773)	(163)

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22. Inventories

In thousands of USD	2008	2007
Stores and materials (at cost)	3,811	5,124
Less: Allowance for obsolete and slow-moving inventories	(550)	(300)
	3,261	4,824
Finished goods (at net realisable value)	40	1,257
Work-in-process (at net realisable value)	2,250	1,099
	5,551	7,180

In 2008, the write down of finished goods and work-in-process recognized as expense amounted to USD 1,035 thousand (2007: nil).

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended 31 December:

In thousands of USD	2008	2007
Allowance at the beginning of the year	(300)	(4)
Charge for the year	(273)	(296)
Write-offs	23	-
Allowance at the end of the year	(550)	(300)

23. Trade and Other Receivables

In thousands of USD	2008	2007
Trade receivables	467	3,185
Other accounts receivable	275	206
Less: Allowance for doubtful debts	(411)	(104)
	331	3,287

Other accounts receivable include receivables from services rendered to third parties. The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of USD	2008	2007
Allowance at the beginning of the year	(104)	-
Charge for the year	(392)	(104)
Write-offs	85	-
Allowance at the end of the year	(411)	(104)

As at 31 December, the ageing analysis of trade and other receivables is as follows:

In thousands of USD	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2008	331	4	52	275	-	-	-
2007	3,287	2,578	503	206	-	-	-

At 31 December, the Group's trade and other receivables were denominated in various currencies as follows:

In thousands of USD	2008	2007
Tenge	331	709
US Dollars	-	2,578
	331	3,287

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24. Available-For-Sale Investments

In thousands of USD	2008	2007
BTA Bank bonds	2,111	2,120
Fair value adjustment	-	(347)
Less: Impairment	(2,111)	-
	-	1,773

On 13 March 2007 the Group purchased BTA Bank bonds for a consideration of USD 2,085 thousand. Maturity date of bonds is 29 June 2036. At 31 December 2008 and 31 December 2007 bonds have been pledged to secure BTA Bank borrowings (note 28). In 2008, BTA Bank stopped paying interest on these bonds and informed the Group about its financial difficulties. The Group recognized impairment on the carrying value of these investments as it is unlikely that the asset would be recoverable. At 31 December 2008, fair value losses of USD 376 thousand recorded in equity were reclassified to the consolidated statement of operations due to impairment of these investments.

25. Cash and Cash Equivalents

In thousands of USD	2008	2007
Cash in banks, USD denominated	122	312
Cash on hand, KZT denominated	40	28
Cash in banks, KZT denominated	7	32
Cash in deposit, USD denominated	-	1,145
Cash in banks, EUR denominated	333	1
	502	1,518

Cash in the amount of USD 147 thousand comprise restricted cash deposit held by the Group in a special bank account pursuant to the Shalkiya Subsurface Use Contract (2007: USD 72 thousand). At 31 December 2008 the Group's cash of USD 163 thousand was held in BTA Bank (2007: USD 103 thousand).

26. 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 USD 1.4729.

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.

Foreign Currency Translation Reserve

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements from functional currency into presentation currency.

Net Unrealized Loss Reserve

Net unrealized loss reserve represents non-distributable revaluation reserve that has been recorded for the amount of the fair value change in available-for-sale investments (note 24).

Loss Per Share

The numerator for the calculation of the basic loss per share for the year ended 31 December 2008 is the loss after tax of USD 41,951 thousand (2007: USD 3,592 thousand) and the denominator for the calculation of the basic loss per share is 5,650,000.

	2008	2007
Loss per share, in US cents	(758.07)	(61.81)
Diluted loss per share, in US cents	(758.07)	(61.81)
Loss attributable to ordinary shareholders, in thousands of USD	(42,831)	(3,492)
Issued Ordinary Shares at the end of the year	5,650,000	5,650,000

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26. Equity continued

(a) From Continuing Operations

The numerator for the calculation of the basic loss per share from continuing operations for the year ended 31 December 2008 is the loss after tax of USD 41,951 thousand (2007: USD 3,592 thousand) and the denominator for the calculation of the basic loss per share is 5,650,000.

	2008	2007
Loss per share, in US cents	(758.07)	(63.57)
Diluted loss per share, in US cents	(758.07)	(63.57)
Loss attributable to ordinary shareholders, in thousands of USD	(42,831)	(3,592)
Issued Ordinary Shares at the end of the year	5,650,000	5,650,000

(b) From Discontinued Operations

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

	2008	2007
Profit per share, in US cents	-	1.76
Diluted profit per share, in US cents	-	1.76
Profit attributable to ordinary shareholders, in thousands of USD	-	100
Issued Ordinary Shares at the end of the year	5,650,000	5,650,000

Reimbursement of IPO Issuance Costs

Reimbursement of IPO issuance costs is related to the amount paid by Bank of New York in accordance with the letter-agreement for depositary services. In accordance with this letter-agreement Bank of New York was obliged to reimburse the Company up to USD 70,000 per million of depositary receipts outstanding upon completion of the IPO stabilization period towards the Company's establishment, maintenance, investor relations, legal fees, exchange listing and other GDR programme-related services upon establishment.

In 2008, Bank of New York paid USD 809 thousand to the Company. This reimbursement was recorded in equity as an increase in the share premium.

27. Equity Settled Employee Benefits Reserve

The Group operated an ownership-based compensation scheme for the Chairman of the Supervisory Board. In accordance with the provisions of the plan, he was granted options to purchase Ordinary Shares. For option series granted at 7 December 2006, the exercise price was equal to the offering price of the GDRs at 7 December 2006 and for option series granted at any date other than 7 December 2006, the exercise price was 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 exercise. No amounts were paid or payable by the recipient on receipt of the option. The options carried neither rights to dividends nor voting rights. Options could be exercised at any time from the date of vesting to the date of their expiry. Vesting was conditional upon the working for the Company over the two years. The number of granted options was calculated from the USD amount of five times the option's holder annual compensation as of the relevant grant date divided by the relevant exercise price and was subject to approval by the Remuneration Committee. In 2008, the Chairman of the Supervisory Board resigned from the Company. This resignation was considered as cancellation of the scheme on forfeiture, and accordingly, any previously recognized losses were reversed in the consolidated statement of operations.

There were no additional options granted.

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28. Borrowings

In thousands of USD	2008	2007
Opening balance	10,484	2,504
Borrowings granted	18,480	7,567
Interest expensed for the period	2,694	270
Capitalised borrowing costs	-	348
Foreign exchange difference	(75)	845
Translation difference	(127)	-
Less: amount repaid	31,456	11,534
Closing balance	(957)	(1,050)
Less: current portion shown within current liabilities	30,499	10,484
	(7,866)	(6,274)
	22,633	4,210

The borrowings are due to BTA Bank. The borrowings are secured by the Group's property, plant and equipment with the carrying amount of USD 17,795 thousand at 31 December 2008 (2007: USD 6,376 thousand) and available-for-sale investments with the nil carrying amount at 31 December 2008 (2007: USD 1,773 thousand).

In 2008, a member of the Group's Board of Directors was a member of the Board of Directors of BTA Bank. The sudden suspension or elimination of business transactions with BTA Bank could severely impact the operations of the Group.

At 31 December 2008, the Group complied with the terms of the loan contracts with BTA Bank. Subsequently in 2009, the Group failed to make scheduled payments of USD 331 thousand under certain loan contracts with BTA Bank. The failure to make scheduled payments of either principal or interest constitutes default under the loan contracts with BTA Bank. The loan contracts also provide for a cross-default in case of non-performance or non-payments under contracts with third parties in the amount exceeding USD 300 thousand. As discussed in note 37, the Group failed to make scheduled payments of USD 765 thousand. This event constitutes a cross-default under the loan contracts. Both default and cross-default under the loan contracts give BTA Bank the right to accelerate repayment of all BTA Bank loans.

The borrowings comprised the following at 31 December:

In thousands of USD	2008	2007
Fixed interest rate borrowings	29,677	8,507
Weighted average interest rate	16.00%	16.00%
Variable interest rate borrowings	822	1,976
Weighted average interest rate	7.51%	10.18%

At 31 December the borrowings were denominated in various currencies as follows:

In thousands of USD	2008	2007
US Dollar	12,149	10,129
Tenge	17,721	5
Rubles	629	350
	30,499	10,484

29. Provision for Future Site Restoration

In thousands of USD	2008	2007
At 1 January	2,241	2,018
Change in estimate	1,192	-
Unwinding of discount	274	103
Translation difference	(10)	120
At 31 December	3,697	2,241
Restricted cash on a special deposit (note 25)	147	72
Unfunded portion of the provision	3,550	2,169

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29. Provision for Future Site Restoration continued

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 19,000,987 thousand Tenge (USD 157,358 thousand).
- 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 long-term inflation rate is 5% per annum.
- The discount rate applied is 8% per annum.

30. Due to the Republic of Kazakhstan

In thousands of USD

	2008	2007
At 1 January		
Unwinding of discount	1,906	1,716
Foreign exchange differences	245	190
At 31 December	49	-
	2,200	1,906

The Group accrued the discounted carrying amount of its obligation to reimburse the Government of Kazakhstan for the historical cost of geological studies performed by the Government 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 459,995 thousand Tenge (USD 3,810 thousand).
- 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.

31. Trade and Other Payables

In thousands of USD

	2008	2007
Payables for equipments and construction materials		
Accrued expenses	4,757	3,179
Trade accounts payable for services	2,148	614
Payables to employees	1,333	2,984
Other	565	534
	180	26
Less: Due within one year	8,983	7,337
Long-term trade payables	(7,096)	(4,567)
	1,887	2,770

As of 31 December 2008, the Group did not comply with the terms of the contract for supply of equipment. The Group did not make scheduled payments in the amount of USD 234 thousand. This contract for supply of equipment does not have any penalty clauses on late payments. Management believes that such non-compliance does not accelerate repayment and did not reclassify the non-current portion of the payables to current payables.

32. Financial Instruments and Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of bank borrowings, dues the Republic of Kazakhstan, cash and short-term deposits, available-for-sale investments as well as trade and other receivables and trade and other payables.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable interest rate borrowings.

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32. Financial Instruments and Financial Risk Management Objectives and Policies continued

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

In thousands of USD	2008		2007	
	Increase/decrease in basis points	Effect on profit before tax	Increase/decrease in basis points	Effect on profit before tax
US Dollar	+55	(5)	+50	(8)
	-55	5	-50	8

* One basis point = 0.01%

Currency Risk

As a result of significant borrowings, accounts payable, dues to the Republic of Kazakhstan and cash and cash equivalents denominated in various currencies, the Group's consolidated balance sheet can be affected significantly by movement in exchange rates. The Group does not hedge its foreign currency risks.

The following table demonstrates the sensitivity to reasonably possible changes in the exchange rates, with all other variables held constant, of the Group's loss before income tax (due to changes in the fair value of monetary assets and liabilities).

In thousands of USD	2008		2007	
	Increase/decrease in exchange rate	Effect on profit before tax	Increase/decrease in exchange rate	Effect on profit before tax
US Dollar	+25%	(4,280)	+5%	(634)
	+40%	(5,849)	-5%	634
EUR	+30%	(300)	+5%	(94)
	+40%	(399)	-5%	94
RLR	+10%	(63)	+5%	(2)
	-10%	63	-5%	2

Credit Risk

The Group endeavors to trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale investments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group has also significant concentration risk related to cash and cash equivalents, of which 32% placed in BTA Bank, and BTA Bank bonds (notes 24 and 25).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

In thousands of USD	On demand	Due later than one month but not later than three months	Due later than three months but not later than one year	Due later than one year but not later than five years	Due after five years	Total
At 31 December 2008						
Borrowings (see also notes 28 and 37)	-	2,123	9,179	29,773	-	41,075
Trade and other accounts payable	7,085	281	599	2,523	-	10,488
Due to the Republic of Kazakhstan	-	-	381	1,524	1,905	3,810
	7,085	2,404	10,159	33,820	1,905	55,373
At 31 December 2007						
Borrowings	-	-	877	14,473	3,335	18,685
Trade and other accounts payable	4,567	220	520	3,403	-	8,710
Due to the Republic of Kazakhstan	-	-	-	1,524	2,286	3,810
	4,567	220	1,397	19,400	5,621	31,205

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29. Financial Instruments and Financial Risk Management Objectives and Policies continued

Commodity Price Risk

The Group is exposed to the effect of fluctuations in the prices of zinc and lead, which is quoted in USD on international markets. The Company prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of zinc and lead prices in the future.

The Company has historically not hedged its exposure to the risk of fluctuations in the price of its products.

Fair Values of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

In thousands of USD	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Cash and cash equivalents	502	1,518	502	1,518
Trade and other receivable	331	3,287	331	3,287
Available-for-sale investments	-	1,773	-	1,773
Financial liabilities				
Borrowings				
Trade and other payables	30,499	10,484	29,960	12,106
Due to the Republic of Kazakhstan	8,983	7,337	8,983	7,337
	2,200	1,906	2,200	1,906

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2008.

33. Non-Cash Transactions

In 2007, the Group capitalized interest on bank loans of USD 346 thousand to property, plant and equipment (2008: nil). This transaction has been excluded from the consolidated cash flow statement.

34. Commitments and Contingencies

Commitments

Training

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 1% of operating costs during the production period.

Liquidation Fund

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to accumulate cash on a special bank account in the amount of not less than 1% of operating costs to fund future site restoration costs 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 the amount of not less than 1% of exploration and operating costs (capped at USD 7,767 thousand) to fund future site restoration costs related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

At 31 December 2008 and 2007, the Group was not in compliance with the liquidation fund commitment. However, the Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position, statement of operations, or cash flows.

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34. Commitments and Contingencies continued

Capital and Operational Expenditures

In accordance with the working programme under the Shalkiya Subsurface Use Contract the Group has the following commitments:

Year	Capital expenditures	Operational expenditures
2012	2,436	2,538
2013	1,236	2,637
2013-2046	20,750	76,097
Total	24,422	81,272

The working programme for the development and production under the Talap Subsurface Use Contract has not been yet approved by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

Insurance

The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in developed 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.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2008. As at 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

Environmental Matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. Other than that disclosed below, management believes that there are no probable or possible environmental liabilities which could have a material adverse effect on the Group's financial position, consolidated statement of operations or consolidated cash flows. In 2008 and 2007, the Group was a defendant in a legal action involving alleged environmental pollution in the amount of USD 3,218 thousand. In February 2009, according to the decision of the Collegiate Organ on Civil Affairs of the Southern Kazakhstan Oblast Court the amount claimed from the Group was reduced to USD 1,410 thousand. Management believes that the action can be successfully defended and therefore no losses will be incurred and no provision has been made in these consolidated financial statements for the legal claim.

Legal Claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group's management does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations. The Group assesses the likelihood of material liabilities and makes provisions in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

35. Related Party Transactions

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Group. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates.

Sale of Stone Crushing Plant

In 2007, the Group sold its fully owned subsidiary Stone Crushing Plant for USD 405 thousand. 40% of shares of Stone Crushing Plant were acquired by Polymetall Resources Ltd, owned by General Director Marat Sarkytbayev (80%) and Business Development Director Samat Kazymov (20%).

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

35. Related Party Transactions continued

Compensation of Key Management Personnel

Key management personnel comprise members of the Group's management and members of Supervisory Board, totalling eight persons at 31 December 2008 (31 December 2007: eight persons). Compensation to key management personnel consists of short-term employee benefits and equity settled employee benefits (note 27). Since the Company does not pay social securities or pensions, all salary payments are considered as short-term employee benefits. Total compensation paid to key management personnel amounted to USD 695 thousand for the year ended 31 December 2008 (31 December 2007: USD 1,534 thousand). Equity settled employee benefits relate only to the member of Supervisory Board. There were no payments to the Non-Executive Directors in 2008 and 2007, except for those included in the table below.

Names	Position	2008	2007
Sarkytbaev Marat	General Director		
Tokbaev Bagdat	Former Finance Director	286	709
Abuov Asylbek	Deputy General Director	99	78
Svoik Yelena	Current Finance Director	88	236
Taimov Gabit	Economic Security Director	69	91
Kazymov Samat	Business Development Director	79	37
Azelganeyeva Ramilya	Director of Finance and Economics Department	80	86
Graham McCartney	Member of Supervisory Board	56	73
Total		(62)	224
		695	1,534

Breakdown by types	2008	2007
Wages and salaries		
Share option (release)/charge	860	1,433
Total	(165)	101
	695	1,534

At 31 December 2008, receivables from key management personnel amounted to USD 32 thousand and were presented within other receivables (2007: USD 23 thousand).

At 31 December 2008, payables to key management personnel amounted to USD 34 thousand and were presented within other payables (2007: USD 30 thousand).

Henk van Wijlen, Corporate Secretary, was not paid in 2008 and 2007.

36. Auditors' Remuneration

In thousands of USD

	2008	2007
Audit and review of financial information of the Group	310	300

SHALKIYAZINC N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

For the year ended 31 December 2008

37. Subsequent Events

i) As announced to the market in the Company's press release on 1 May 2009, the Group has applied for a suspension of trading in its GDRs pending publication of its audited financial information for the year ended 31 December 2008. The UK Financial Services Authority has approved the Company's application and with effect from the opening of business on Friday 1 May 2009, trading in the Company's GDRs has been suspended.

ii) In January 2009, the Group entered into an agreement with BTA Bank for restructuring of certain BTA Bank's borrowings. The restructuring resulted to a revision of the payment schedule and consequently a revision of the maturity profile of the Group's borrowings as follows:

In thousands of USD	On demand	Due later than one month but not later than three months	Due later than three months but not later than one year	Due later than one year but not later than five years	Due after five years	Total
Borrowings	–	322	997	40,461	–	50,858

In 2009, the Group failed to comply with certain restrictive covenants of the BTA Bank loan contracts (note 28). In accordance with the General loan agreement a breach of covenants constitutes an event of default and BTA Bank may require accelerated repayments of these loans as this Incompliance constitutes default event under the General loan agreement.

Also, the Group's failure to make scheduled payments of BTA Bank loans may result in accruals of fines at 0.22% per day on the overdue amount. Total amount of the fines estimated to USD 64 thousand as of 29 October 2009. The Group's management believes that BTA Bank will not require the accelerated payment of Group's borrowings and no any actions will be taken by BTA Bank with respect to assets held as collateral under these loans.

iii) On 4 March 2009, the Shalkiya and Talap Subsurface Use Contracts were terminated by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") accusing the Company with illegal IPO in December 2006. The issue is that in accordance with the Kazakhstan legislation the Government of the Republic of Kazakhstan has the priority right to purchase shares of the Company in cases of their sale or additional issuance. In other cases, the subsurface users have to obtain a confirmation from the MEMR on waiving its rights. The Company's position is that appropriate letters-requests were filed with the MEMR and in the absence of any objections from the MEMR within 45 days, it was legally presumed that the waiver has been obtained. On 19 May 2009, the Specialized Interregional Court of Astana city determined that termination of the Shalkiya and Talap Subsurface Use Contracts by the Government of the Republic of Kazakhstan was not legal and reversed the termination of the Shalkiya and Talap Subsurface Use Contracts. The Group's management expects that the Shalkiya and Talap Subsurface Use Contracts will be resumed.

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COMPANY FINANCIAL STATEMENT OF SHALKIYAZINC N.V.
COMPANY INCOME STATEMENT OF SHALKIYAZINC N.V.
For the year ended 31 December 2008

(BEFORE PROPOSED APPROPRIATION OF RESULTS)

In thousands of USD	Note	2008	2007 (restated - see page 37-38)
Result of subsidiary after taxation	2	(29,795)	(3,162)
Other income and expense after tax	5	(13,036)	(330)
Net loss		(42,831)	(3,492)

COMPANY BALANCE SHEET OF SHALKIYAZINC N.V.

As at 31 December 2008

In thousands of USD		Notes	31 December 2008	31 December 2007 (restated - see page 37-38)
Assets				
Non-current assets				
Financial fixed assets		2	32,249	58,983
			32,249	58,983
Current assets				
Short-term portion of VAT receivable				
Short-term loan			80	-
Accounts receivable			2,900	2,500
Cash and cash equivalents		3	1,929	1,547
		4	444	1,150
			5,353	5,197
Total assets			37,602	64,180
Shareholders' equity and liabilities				
Shareholders' equity				
Share capital				
Share premium		6	83	83
Legal reserves			62,164	61,355
Equity settled employee benefits reserve		7	3,091	3,103
Retained earnings		8	-	165
			(45,329)	(2,498)
Non-current liabilities			20,009	62,208
Derivative liability				
		9	16,735	1,671
Current liabilities			16,735	1,671
Trade payables				
Taxes payable			-	107
Accrued fees			7	9
			851	185
			858	301
Total equity and liabilities			37,602	64,180

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 31 December 2008

1. Presentation of Financial Statements and Principal Accounting Policies

The description of the activities of Shalkiya 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 exercises 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 29 to 55.

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 consist of the following:

In thousands of USD	2008	2007 (restated - see pages 37-38)
Long-term loan	53,804	50,731
Investment in the subsidiary	(21,555)	8,252
	32,249	58,983

The negative equity value of the investment in the subsidiary is considered to be a provision on the long-term loan due from the subsidiary.

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

In thousands of USD	2008	2007
Opening balance at 1 January	53,231	73,000
Repayments over the year	-	(23,000)
Restatement of loan part	3,073	731
Borrowing granted during the year	400	2,500
Closing balance at 31 December	56,704	53,231
Less: current portion shown under current assets	(2,900)	(2,500)
Non-current portion	53,804	50,731

The loan is related to the subsidiary of the Company. At 31 December 2008 the loan increased by USD 400 thousand to USD 56,704 thousand. Short-term loan of USD 2,500 thousand is payable on demand and bears interest of 12% per annum. The new loan with total amount of USD 400 thousand is short-term and bears no interest.

The loan amount of USD 53,804 thousand bears an annual interest rate based upon the pre-tax profit earned by the subsidiary. The effective interest rate for the loans is 9.75%. The loans are repayable in 2061. The loans are unsecured and repayment is subordinated to rights of other creditors.

The investment in the subsidiary is relating to ShalkiyaZinc Ltd LLP and is stated at net equity value, as the Company effectively exercises significant influences over the subsidiary.

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued For the year ended 31 December 2008

2. Financial Fixed Assets continued

The movements of the investment in the subsidiary were as follows:

In thousands of USD

Balance as at 31 January 2007	
Book value	
Movements 2007	(14,814)
Contribution in kind	
Asset revaluation reserve	23,000
Cumulative translation adjustment	(347)
Result of the subsidiary for the period	3,575
Balance as at 31 December 2007 (as restated)	(3,162)
Book value	
Movements 2008	8,252
Asset revaluation reserve	
Cumulative translation adjustment	347
Result of the subsidiary for the period	(359)
Balance as at 31 December 2007	(29,795)
Book value	(21,555)

3. Accounts Receivable

In thousands of USD

	2008	2007
Receivable from the subsidiary		
Other accounts receivable	1,929	1,546
	-	1
	1,929	1,547

4. Cash and Cash Equivalents

In thousands of USD

	2008	2007
Cash in deposit, USD denominated		
Cash in banks, USD denominated	-	1,145
Cash in banks, EUR denominated	333	4
	111	1
	444	1,150

5. Other Income and Expenses

In thousands of USD

	2008	2007
(Expenses)/Income on loans		
Interest income on deposits	(11,690)	397
Other expenses	10	-
Foreign gain	(1,395)	(67)
	3	-
	(13,036)	330

6. Shareholders' Equity

For the statement of change in consolidated equity for the year ended 31 December 2008, refer to pages 28, 47 to 48.

7. Legal Reserve

In thousands of USD

	2008	2007
Legal reserve as at 31 December 2007		
Assets revaluation reserve	(3,103)	113
Cumulative translation adjustment	(347)	347
	359	(3,563)
	(3,091)	(3,103)

These reserves are not distributable.

NOTES TO THE COMPANY FINANCIAL STATEMENTS For the year ended 31 December 2008

8. Equity Settled Employee Benefits Reserve

For details of the equity settled employee benefits reserve, refer to page 48.

9. Derivative Liability

The derivative liability is related to the loan given to the Subsidiary (note 2). At 31 December 2008 the amortized cost of the loan amounted to USD 53,804 thousand (2007: USD 50,731 thousand). The loan bears an annual interest rate based upon the pre-tax profit earned by the subsidiary. The effective interest rate for the loan is 9.75%. The loan is repayable in 2061. The loan is unsecured and repayment is subordinated to rights of other creditors.

The Company designated the "profit linking feature" within the Parent Company debt as an embedded derivative and classified it as 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 and loss. The embedded derivative has been classified at fair value through profit and loss.

At 31 December 2008 the fair value of the derivative liability of USD 16,735 thousand (2007: USD 1,671 thousand) was determined using the discounted cash flow analysis. The Company used 12% discount rate which equals the prevailing rates of return for instruments with the substantially the same terms and characteristics, such as currency, credit quality and principal repayment.

In 2008 the Company reassessed future pre-tax profits of the subsidiary (refer to going concern note in the Group's consolidated financial statements) and as a result fair value loss of USD 15,064 thousand was recorded within other income and expenses.

SHALKIYAZINC N.V. BOARD

Marat Sarkytbayev (Executive Board Member)

Mr. Henk van Wijlen (Executive Board Member)

Mrs. Ramliya Azelgareyeva (Executive Board Member)

Mr. Baurzhan Bisembayev (Non-Executive Board Member)

Mr. Talgat Alimkhanov (Non-Executive Board Member).

Delft

29 October 2009

ShalkiyaZinc 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 capital of the Company, increased by legal and statutory reserves.

Proposed Appropriation of Results


The Management Board proposes to add the net loss over the period 6 November 2006 up to 31 December 2008, being the first extended financial year, in full to the retained earnings.


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 55.


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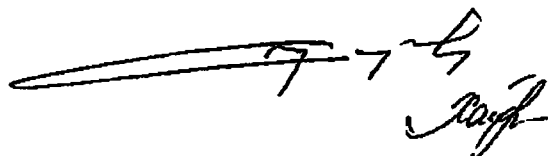

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