



ShalkiyaZinc N.V.

(incorporated as a public company with limited liability under Dutch law)

Global Offer of up to 16,100,000 Global Depositary Receipts

This is the initial public offering (the “**Global Offer**”) of up to 16,100,000 global depositary receipts (“**GDRs**”), each representing one-tenth of an ordinary share with nominal value of €0.01 each (the “**Shares**”) of ShalkiyaZinc N.V. (the “**Issuer**”), a company incorporated with limited liability in The Netherlands. The Issuer is the sole owner of LLP ShalkiyaZinc Ltd., a partnership organised under the laws of Kazakhstan (the “**Company**” or “**ShalkiyaZinc**” and, together with the Issuer, the “**Group**”).

The GDRs offered in the Global Offer (the “**Offer GDRs**”) consist of: (i) 14,000,000 GDRs (the “**Firm GDRs**”) representing 1,400,000 Shares (the “**Firm Shares**”) delivered on or around 13 December 2006 (the “**Closing Date**”), comprised of 11,500,000 GDRs representing 1,150,000 new Shares to be issued and offered by the Issuer and 2,500,000 GDRs representing 250,000 existing Shares to be offered by the Selling Shareholders (as defined below); and (ii) up to 2,100,000 additional GDRs (the “**Over-allotment GDRs**”) representing 210,000 existing Shares (the “**Over-allotment Shares**”) to be offered by the Selling Shareholders pursuant to the Over-allotment Option (as defined below). The Offer GDRs are being offered outside the United States in offshore transactions in reliance on Regulation S (“**Regulation S**”) under the US Securities Act of 1933, as amended (the “**US Securities Act**”) and, to the extent that any Rule 144A GDRs are issued in the future, may offer such Rule 144A GDRs in the United States to qualified institutional buyers, as defined in, and in reliance on, Rule 144A under the US Securities Act.

Applications have been made to the UK Financial Services Authority (“**FSA**”) in its capacity as competent authority for purposes of Part VI of the Financial Services and Markets Act (the “**FSMA**”) for up to 56,500,000 GDRs to be admitted to listing on the Official List of the FSA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such number of GDRs to be admitted to trading on the London Stock Exchange’s regulated market for listed securities (together, the “**Admission**”). The above applications include 14,000,000 Firm GDRs; up to 2,100,000 Over-allotment GDRs; and up to 40,400,000 additional GDRs to be issued from time to time following the Closing Date against deposit of Shares with The Bank of New York as depositary (the “**Depositary**”). Conditional dealings in the GDRs are expected to commence on the London Stock Exchange on or about 8 December 2006 under the symbol “SKZ”. All dealings before the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place. Such dealings will be at the sole risk of the parties concerned. It is expected that Admission will become effective and that unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on or about 14 December 2006.

Concurrently with the Global Offer, the Issuer and the Depositary have established a depositary receipt facility for the future issuance of global depositary receipts under Rule 144A of the US Securities Act (“**Rule 144A GDRs**”). No Rule 144A GDRs will be issued on the Closing Date or are otherwise being offered in the Global Offer.

The Global Offer does not constitute an offer to sell, or a solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Shares and the GDRs have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred within the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Any person considering acquiring Offer GDRs in the Global Offer should read this prospectus in its entirety and, in particular, “*Risk Factors*”.

Offer Price: US \$7.25 per GDR

Global Co-ordinator, Bookrunner and Lead Manager

ING

Co-Lead Manager

Aton Capital

8 December 2006

This document comprises a prospectus relating to the Issuer and the Company in respect of the Offer GDRs, and not of the Shares, prepared in accordance with the prospectus Rules of the FSA made under section 73A of the FSMA, as amended (the “**Prospectus Rules**”).

As at 30 June 2006, the Company’s total liabilities exceeded its total assets by KZT 2,994.3 million. In addition, as at 30 June 2006 the Company had an accumulated deficit of KZT 2,996.7 million. These conditions indicate the existence of a material uncertainty which may cast significant doubt in connection with the Group’s ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of its business. For further information on this matter, see the Auditors’ Reports and Notes 2(a) and 2(b) to the Company’s audited consolidated annual financial statements for the three years ended and as at 31 December 2003, 2004 and 2005 and to the Company’s unaudited interim consolidated financial statements for the six months ended and as at 30 June 2005 and 2006.

Prior to the Global Offer there has been no market for the GDRs. The Shares to be issued and made available pursuant to the Global Offer in the form of GDRs will, following the Closing Date, rank *pari passu* in all respects with the other issued Shares of the Issuer and will carry the right to receive all dividends and distributions declared, made or paid on, or in respect of, the Shares after the Closing Date.

ING Bank N.V., London Branch (a “**Manager**” or the “**Lead Manager**”) is acting for the Issuer and no one else in connection with the Global Offer, and will not be responsible to anyone other than the Issuer for providing the protections afforded to its clients, or for providing advice in relation to the Global Offer or any transaction or arrangement referred to in this prospectus.

Aton International Limited (“**Aton**” or a “**Manager**” and, together with the Lead Manager, the “**Managers**”) is acting for the Issuer and no one else in connection with the Global Offer, and will not be responsible to anyone other than the Issuer for providing the protection afforded to its clients, or for providing advice in relation to the Global Offer or any transaction or arrangement referred to in this prospectus. Aton is a European investment firm with operations in Russia and other countries, registered in Cyprus and authorised by the Cyprus Securities and Exchange Commission (CySEC). It is also authorised by the FSA for the conduct of investment business in the United Kingdom and is a member of, and acts as a market maker on, the London Stock Exchange.

The distribution of this prospectus and the offer of the Offer GDRs in certain jurisdictions may be restricted by law. Accordingly, neither this prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. No action has been or will be taken at the date of this prospectus, by the Issuer, the Selling Shareholders, the Managers or any other legal entity to permit a public offering of the Offer GDRs or the Shares or to permit the possession or distribution of this prospectus (or any other offering or publicity materials or application form(s) relating to the Offer GDRs or the Shares) in any jurisdiction where action for that purpose may be required.

This prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Offer GDRs in any jurisdiction in which such offer or sale would be unlawful. Persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. Further information with regard to restrictions on offers and sales of Offer GDRs and the distribution of this prospectus is set out in the section headed “*Subscription and Sale*”.

The information contained in this prospectus has been provided by the Issuer and other sources identified herein. The Managers do not make any representation, express or implied, or accept any responsibility, with respect to the accuracy or completeness of any of the information in this prospectus. This prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Selling Shareholders or the Managers that any recipient of this document should subscribe for or purchase Offer GDRs.

Prospective investors should rely only on the information in this prospectus. No legal entity has been authorised to give any information or make any representations other than those contained in this prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Issuer, the Selling Shareholders, or the Managers. Without prejudice to any obligation of the Issuer to publish a supplementary prospectus pursuant to section 87G of the FSMA and paragraph 3.4 of the Prospectus Rules of the FSA, neither the delivery of this prospectus nor any subscription or purchase of Offer GDRs made pursuant to this prospectus shall, under any circumstances, create any implication that there has been no change in the affairs

of the Group from time to time since, or that the information contained herein is correct at any time subsequent to, the date of this prospectus.

Potential investors should read this prospectus in its entirety and determine for themselves the relevance of the information contained in this prospectus and their subscription of Offer GDRs should be based upon such investigation as they deem necessary. In making an investment decision, prospective investors must rely upon their own examination of the Group and the terms of this document, including the risks involved. The contents of this prospectus are not to be construed as legal, financial, business or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice. If in any doubt about the contents of this prospectus, prospective investors should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

In connection with the Global Offer, the Managers, and any of their respective affiliates acting as an investor for its or their own account(s) may acquire Offer GDRs and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any other securities of the Issuer or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this prospectus to the Offer GDRs being issued, offered, acquired or otherwise dealt with should be read as including any issue or offer to, or acquisition or dealing by, the Managers or either of them and any of their affiliates acting as an investor for its or their own account(s). The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Issuer, the Selling Shareholder and the Managers reserve the right to reject any offer to purchase the Offer GDRs in whole or in part and to sell to any prospective investor less than the full amount of the Offer GDRs requested by such investor.

RULE 144A GDR FACILITY

Concurrently with the Global Offer, the Issuer and the Depositary have established a depositary receipt facility for the issuance of Rule 144A GDRs, although no Rule 144A GDRs will be issued on the Closing Date or are otherwise being offered in the Global Offer. The Rule 144A GDRs (to the extent, if any, to be issued in the future) will be issued pursuant to a deposit agreement to be dated on or about 13 December 2006 between the Issuer and the Depositary (the “**Deposit Agreement**”). Application has been made to have the Rule 144A GDRs accepted for clearance through the facilities of The Depositary Trust Company (“**DTC**”).

References in this prospectus to “Offer GDRs” shall be to GDRs offered pursuant to Regulation S and issued under a depositary receipt facility for the issuance of Regulation S GDRs (“**Regulation S GDRs**”). References, however, to “GDRs” may, where the context allows, be construed to include any Rule 144A GDRs which may be issued pursuant to the Deposit Agreement following the Closing Date.

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, the Issuer has appointed ING Bank N.V., London Branch as stabilising manager (the “**Stabilising Manager**”). Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. (the “**Selling Shareholders**”) have agreed with the Stabilising Manager that the Stabilising Manager may, acting as principal, acquire or procure acquirers for up to 2,100,000 Over-allotment GDRs, representing additional Shares made available by the Selling Shareholders, which represents up to 15% of the total number of GDRs to be made available in the Global Offer (excluding any Over-allotment GDRs) at the Offer Price of US \$7.25 per GDR solely in order to cover over-allotments in connection with the Global Offer (the “**Over-allotment Option**”). Any Shares represented by Over-allotment GDRs offered in the Global Offer made available pursuant to the Over-allotment Option will rank *pari passu* with the Firm Shares, including with respect to all dividends and other distributions declared, made or paid on the Shares, and will form a single class for all purposes with the other Shares.

In connection with the Global Offer, the Stabilising Manager, or any of its agents may, to the extent permitted by applicable law, at its discretion, over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30-day period beginning from the announcement of the Offer Price. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Save as

specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

NOTICE TO UK AND EEA INVESTORS

This prospectus and the Global Offer are only addressed to, and directed at (i) persons in the United Kingdom who have professional experience in matters relating to investments and who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (ii) high net worth entities, and other persons to whom this prospectus may be lawfully distributed, falling within Article 49(2)(a) to (d) of the Order. In addition, in the United Kingdom this prospectus is being distributed only to, and is directed only at, persons falling within the meaning of “qualified investors” as defined in Section 86 of the Financial Services and Markets Act 2000 (who, together with the persons described in (i) and (ii) above, are referred to as “relevant persons”). In relation to each member state of the European Economic Area (“**EEA**”) (other than the United Kingdom) which has implemented the Directive 2003/71/EC (the “**Prospectus Directive**”) (each being referred to as a “relevant member state”), this prospectus and the Global Offer are only addressed to, and directed at, persons in relevant member states who are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive (“**Qualified Investors**”). This prospectus must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any relevant member state, by persons who are not Qualified Investors. The Shares and the Offer GDRs are only available to, and any investment or investment activity to which this prospectus relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any relevant member state, Qualified Investors, and will be engaged in only with such persons.

This prospectus has been prepared on the basis that once it has been approved under the Prospectus Directive, all offers of Offer GDRs will be made pursuant to an exemption under the Prospectus Directive, as implemented in the relevant member states from the requirement to produce a prospectus for offers of Offer GDRs. Accordingly, any person making or intending to make any offer within the EEA of Offer GDRs which are the subject of the placement contemplated herein, should only do so in circumstances in which no obligation arises for the Issuer, the Selling Shareholders or any of the Managers to produce a prospectus for such offer. None of the Issuer, the Selling Shareholders or the Managers have authorised or does authorise the making of any offer of Offer GDRs through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer GDRs contemplated herein.

NOTICE TO PERSONS IN AUSTRALIA, CANADA AND JAPAN

This prospectus does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, Offer GDRs or Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into Australia, Canada or Japan. In particular, the Offer GDRs offered under this prospectus have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and, subject to certain exceptions, may not be offered or sold directly, or indirectly, in or into Australia, Canada or Japan, or any legal entity resident in Australia, Canada or Japan.

NOTICE TO PERSONS IN THE UNITED STATES

The Shares and the GDRs have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered, sold, pledged or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The Shares and the GDRs have not been approved or disapproved by the US Securities and Exchange Commission (the “**SEC**”), any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Offer GDRs or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

The information in this prospectus is not intended or written to be used, and cannot be used by any legal entity, for the purpose of avoiding US federal tax penalties, and was written to support the promotion or marketing of the Global Offer. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

The Global Offer and the associated tax strategies are not confidential, proprietary or exclusive. Notwithstanding anything to the contrary herein, there is no limitation on the disclosure by any recipient of this prospectus of the tax treatment or tax structure of the Global Offer described therein.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

The Issuer will agree in the Deposit Agreement and in the Deed Poll that, to the extent any Rule 144A GDRs (including any issued in exchange for Regulation S GDRs, as defined below) are issued and remain outstanding in the future and for so long as such Rule 144A GDRs or the Shares represented thereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon the request of any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, the information specified under Rule 144A(d)(4) to that holder, beneficial owner or prospective purchaser unless, at the time of that request, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the “**US Exchange Act**”) or the Issuer is included in the list of foreign private issuers that claim exemption from the registration requirements of Section 12(g) of the US Exchange Act (and therefore furnish the SEC certain information pursuant to Rule 12g3-2(b) under the US Exchange Act).

NO INCORPORATION OF WEBSITE INFORMATION

The contents of the Issuer’s and the Company’s websites do not form part of this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements which reflect the current view of the Issuer or, as appropriate, of the directors of the Issuer (the “**Directors**”) or the management of the Company (the “**Management**”), as the context may require, with respect to financial performance, business strategy, plans and objectives of the Issuer or the Company for future operations (including development plans relating to the Group’s products and services).

These forward-looking statements relate to the Group and the sectors and industries in which the Group operates. Statements which include the words “expects”, “intends”, “plans”, “believes”, “projects”, “anticipates”, “will”, “targets”, “aims”, “may”, “would”, “could”, “continue” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of US federal securities laws or otherwise.

All forward-looking statements included in this prospectus address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group’s actual results to differ materially from those indicated in these statements. These factors include, but are not limited to, those described in the part of this prospectus entitled “*Risk Factors*”, as well as the factors listed below and should be read in conjunction with the other cautionary statements included in this prospectus:

- changes in the prices of zinc and lead metal quoted on the London Metals Exchange (“**LME**”) and changes in the prices the Company realises for its products;
- increases or decreases in demand for the Company’s products;

- changes in the Company's rates of extraction of zinc-lead ore;
- the effects of competition;
- changes in the costs of energy, transportation, labour and other cost items;
- the Company's ability to comply with the conditions imposed by lenders under its financing arrangements;
- availability of funds, through borrowings or otherwise, for the Company's future operations and planned capital expenditures;
- the Company's ability to successfully implement any of its business or financing strategies;
- developments in, or changes to, the laws, regulations and governmental policies applicable to the Company's business, including changes affecting environmental liabilities;
- substantial inflation, interest rate and exchange rate fluctuations;
- changes in the Company's ability to obtain, maintain or renew the licences necessary to conduct its businesses;
- changes in political, social, legal or economic conditions in Kazakhstan or the neighbouring countries;
- the effects of international political events; and
- the Company's success in identifying additional risks to its businesses and managing risks associated with the aforementioned factors.

Any forward-looking statements in this prospectus reflect the Issuer's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, growth strategy and liquidity.

Any forward-looking statements speak only as of the date of this prospectus. Subject to any obligations under the UK Listing Authority ("UKLA") Listing Rules, the Issuer undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this prospectus which could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial and Operating Data

This prospectus contains financial statements of, and financial information relating to, the Company and not the Issuer. In particular, this prospectus contains the Company's audited consolidated annual financial statements for the three years ended, and as at, 31 December 2003, 2004 and 2005 (the "**Annual Financial Statements**") and the Company's unaudited interim consolidated financial statements for the six months ended, and as at, 30 June 2005 and 2006 (the "**Interim Financial Statements**") and, together with the Annual Financial Statements, the "**Financial Statements**"). The Financial Statements appended to this prospectus are presented in Tenge and have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Deloitte LLP, Kazakhstan has performed a limited review of the interim financial statements for the six months ended, and as at, 30 June 2006 (and not of those for the six months ended, and as at 30 June 2005) in accordance with the International Standard on Review Engagements 2410 ("**Review of Interim Financial Information Performed by the Independent Auditor of the Entity**").

The functional currency of the Company is the Tenge. Accordingly, transactions in currencies other than the Company's functional currency are translated into Tenge at the exchange rates prevailing on the applicable transaction dates.

Certain figures contained in this prospectus, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this prospectus may not conform exactly to the total figure given for that column or row.

In this prospectus data expressed in US dollars for convenience purposes only have been translated from Tenge into US dollars at the rate of KZT 126.29 per US \$1, being the average exchange rate of the Tenge against the US dollar in September 2006, except for US dollar translations of information derived from the Financial Statements, in which case the relevant Tenge amounts have been translated into US dollars at the Tenge to US dollar exchange rate applicable for the relevant period or date of the respective Financial Statements. See "*Selected Historical Financial and Operational Information for the Company*".

Market, Economic and Industry Data

In this prospectus, references to "**ILZSG**" are to the International Lead and Zinc Study Group, an intergovernmental organisation which provides industry statistics and economic studies for the lead and zinc industry; references to "**Brook Hunt**" are to Brook Hunt, a mining and metal industry consulting firm; and references to "**Antaika**" are to a Chinese information bureau.

Market, economic and industry data in this prospectus has been derived from various industry and other independent sources. There can be no assurance regarding the accuracy and completeness of such information. Data presented in the "*Industry Overview*" section of this prospectus was derived from publicly available information, including press releases and public filings and industry research and consulting organisations. In particular, information presented in the subsection entitled "*Overview of the global zinc industry*" was mainly derived from information prepared and published by ILZSG, and information presented in the subsection entitled "*The Chinese perspective*" was sourced mainly from data made available by Antaika and ILZSG. Information presented in the subsection entitled "*Overview of the zinc industry in Kazakhstan*" was mainly derived from data contained in the report "*Summary of the Kazakhstan Zinc Industry*", which was prepared by Brook Hunt for AMC on behalf of the Issuer in November 2006 (the "**Brook Hunt Report**"), as well as publicly available documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. The estimate that the Reserves of the Shalkiya Deposit represent approximately 30% of the country's total zinc Reserves was also sourced from the Brook Hunt Report.

The Issuer confirms that the above information has been accurately reproduced from its sources and, as far as the Issuer is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. There is not always a uniformity of views among such sources as to the information provided therein. The Issuer has relied on the accuracy of this information without carrying out an independent verification of the accuracy of such information. See also "*Risk Factors — Risk relating to the accuracy of market, economic and industry data*".

Ore reserve and mineral resource reporting — basis of preparation

AMC Consultants (UK) Ltd. (“AMC”) has provided and reviewed certain of the Company’s Reserves and Resources set out in its Competent Persons’ Report (“CPR”) in the table under the heading “CPR — Executive Summary — Reserves”. Information on the reserves and resources reviewed by AMC is set out in tables under the headings “CPR — 4. Shalkiya Geology and Reserves — Reserves and Resources”. For information on certain risks relating to ore reserve and resource estimation, see “Risk Factors — Risks relating to the Zinc and Lead Mining Industries — Risk relating to information on reserves and resources estimates”.

In this prospectus, reserve estimates with respect to the Shalkiya Deposit have been reviewed by AMC on the basis of data prepared by the Company in accordance with the Kazakhstan Classification of Reserves and Resources (the “KCR”) and have been substantiated by evidence obtained by AMC from site visits. Their observations are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied by the management of the Company and the Directors of the Issuer.

AMC is currently conducting an ongoing exercise in order to reclassify the Reserves of the Shalkiya Deposit in accordance with the 2004 Australasian Code of Reporting of Mineral Resources and Reserves (the “JORC Classification Code”). This exercise is still in progress due to the large amount of data still to be processed, but AMC have stated in the CPR that results to date demonstrate that a DataMine computerised estimate of the global JORC Resource is comparable to the Company’s Balance Reserve estimate, when the same cut-off grade is used. This supports AMC’s prediction that the estimates of JORC Reserves, when they are completed, will be similar to the Company’s Mineable Reserve estimates based on the KCR at a 3% zinc-equivalent cut-off grade. Reserve estimates with respect to the Talap Deposit have not been reviewed by AMC and are provided by the Company based on data prepared by the Company in accordance with the KCR.

For information on the KCR, including a comparison of this method of classification with the JORC Classification Code, see “Annex B — Kazakhstan’s Classification of Reserves and Resources”.

Currency Presentation

Unless otherwise indicated, all references in this prospectus to “US \$” or “US dollars” are to the lawful currency of the United States and all references to “KZT” or the “Tenge” are to the lawful currency of the Republic of Kazakhstan (“Kazakhstan”).

References to Defined Terms

Certain terms used in this prospectus, including certain capitalised terms and certain technical and other terms, are defined in “Definitions”, and certain selected industry and technical terms used in this prospectus are defined and explained in “Glossary”.

EXCHANGE RATES

The following table shows for the dates and periods indicated the period-end, average, high and low official Tenge to US dollar exchange rate as reported by the National Bank of Kazakhstan (the “NBK”) expressed in Tenge per US \$1.00.

<u>Period</u>	<u>Period end</u>	<u>Average⁽¹⁾</u>	<u>High</u>	<u>Low</u>
2003	144.2	149.5	155.8	143.7
2004	130.0	136.0	143.3	130.0
2005	133.8	132.9	136.1	129.8
May 2006	121.5	122.6	124.4	121.0
June 2006	118.7	119.9 ⁽²⁾	121.3	118.3
July 2006	118.4	118.2	118.5	117.3
August 2006	125.2	122.8	125.2	118.7
September 2006	127.1	126.3	127.1	125.5
October 2006	127.8	127.7	127.9	127.2
24 November 2006	127.9	—	—	—

Notes:

(1) The weighted average rate reported by the NBK for each month or year during the relevant period.

(2) For the six months ended 30 June 2006, the average rate was KZT 127.10.

The above rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this prospectus. The inclusion of these exchange rates is not meant to suggest that the Tenge amounts actually represent such US dollar amounts or that such amounts could have been converted into US dollars at any particular rate, if at all.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is incorporated under the laws of The Netherlands. All or a substantial portion of the assets of the Group and the directors and officers of the Issuer and the Company are located outside the United Kingdom, principally in Kazakhstan and The Netherlands. As a result, it may not be possible for investors to:

- effect service of process within the United Kingdom upon any of the Directors or executive officers of the Issuer named in this prospectus; or
- enforce, in the United Kingdom, court judgments obtained in courts of the United Kingdom against the Issuer or any of the Issuer's Directors and executive officers named in this prospectus in any action.

In addition, it may be difficult for investors to obtain recognition of liabilities predicated upon UK securities laws in original actions brought in courts in jurisdictions located outside the United Kingdom.

Furthermore, none of the United States, The Netherlands or Kazakhstan currently has a bilateral or other treaty with the other providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. A final and conclusive judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon US federal securities laws, would not be automatically recognised or enforceable in The Netherlands. In order to obtain a judgment which is enforceable in The Netherlands, the party in whose favour a final and conclusive judgment of a US court has been rendered must file its claim with a court of competent jurisdiction of The Netherlands to be adjudicated. Under current practice, this party may submit to the Dutch court the final judgment rendered by the US court. If and to the extent that the Dutch court finds the jurisdiction of the US court to have been based on internationally acceptable grounds and that legal procedures comparable with Dutch concepts of due process have been followed, the Dutch court will, in principle, grant the same judgment as the judgment of the US court, unless such judgment would contravene Dutch principles of public order.

Subject to the foregoing and service of process in accordance with applicable treaties, investors may be able to enforce in The Netherlands judgments in civil and commercial matters obtained from US federal or state courts. However, no assurance can be given that those judgments will be enforceable. In addition, even if a Dutch court has jurisdiction, it is uncertain whether such court will impose civil liability in an original action commenced in The Netherlands and predicated solely upon US federal securities laws.

The recognition and enforcement in The Netherlands of a judgment rendered by an English court will be subject to the provisions of Council Regulation (EC) No 44/2001 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters, of 22 December 2000, as amended from time to time. This Regulation is binding with respect to causes of action involving jurisdiction of the courts of European Union member states (with the exception of Denmark). While the Regulation provides for the automatic enforcement in any European Union member state of a judgment obtained in a court of another European Union member state, such judgments must be first registered in the United Kingdom in order to be enforced therein.

The Netherlands is also a party to the Lugano Convention of 16 September 1988 on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters. The Lugano Convention provides specific rules for the mutual enforcement of judgments among signatories. The Lugano Convention currently governs the recognition and enforcement of judgments involving Dutch courts and courts of countries that are parties to the Lugano Convention but not members of the European Union.

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PROSPECTUS SUMMARY

The following summary information should be read as an introduction to, and in conjunction with, the more detailed information appearing elsewhere in this prospectus, including the Audited Financial Statements and the Interim Financial Statements. Any decision by a prospective investor to invest in the GDRs should be based on consideration of the document as a whole and not solely on this summarised information.

Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area no civil liability will attach to the responsible legal entity in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the European Economic Area, the claimant may, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this prospectus before legal proceedings are initiated.

Overview

The Issuer

The Issuer, which is the Company's sole shareholder, was incorporated in The Netherlands on 6 November 2006. The Issuer acquired the entire share capital of the Company on 20 November 2006. Except for the Company, the Issuer has no other operating subsidiaries or other assets and since the date of its incorporation, the Issuer has not commenced operations and has not prepared any financial statements.

The Company

Founded in 2001, the Company is one of the leading mining companies in Kazakhstan, engaged in the mining and processing of zinc-lead ore into zinc and lead concentrates.

The Company's B, C₁ and C₂ reserves of zinc, according to the Kazakhstan Classification of Reserves and Resources (the "KCRR"), amount to 6,052 thousand tonnes at a 3% zinc-equivalent cut-off grade, including 5,527 thousand tonnes of the Shalkiya Deposit and 525 thousand tonnes of the Talap Deposit, as stated by the State Committee on Reserves of Kazakhstan (the "SCR"). The Shalkiya Deposit is the largest known zinc deposit in Kazakhstan, representing approximately 30% of the country's total zinc Reserves (*Brook Hunt Report*).

The following table sets out the Company's Reserves, including those of the Shalkiya Deposit and the Talap Deposit, presented under the KCRR:

	Reserve Category	Ore	Contained Metal		Ore Grade	
			(tonnes, thousands)		(%)	
			Lead	Zinc	Lead	Zinc
Balance Reserves	B	8,942	133	384	1.48%	4.29%
	C ₁	113,380	1,556	4,889	1.37%	4.31%
	C ₂	18,164	231	779	1.27%	4.29%
	Total	140,486	1,920	6,052	1.37%	4.31%
Off Balance Reserves		124,887	784	3,372	0.62%	2.70%

AMC Consultants (UK) Ltd., an independent mining consulting firm, is currently conducting an ongoing exercise in order to reclassify the Reserves of the Shalkiya Deposit in accordance with JORC Classification Code. This exercise is still in progress, due to the large amount of data still to be processed, but AMC have stated in the CPR that results to date demonstrate that a DataMine computerised estimate of the global JORC Resource is comparable to the Company's Balance Reserve estimate, when the same cut-off grade is used. This supports AMC's prediction that the estimates of JORC Reserves, when they are completed, will be similar to the Company's Mining Reserve estimates, based on the KCRR at a 3% zinc-equivalent cut-off grade.

In the six months ended 30 June 2006, the Company processed 189 thousand tonnes of zinc-lead ore and sold zinc concentrate containing 4.0 thousand tonnes of zinc. In 2005, the Company processed 359 thousand tonnes of zinc-lead ore and sold zinc concentrate containing 8.3 thousand tonnes of zinc. The Company sells zinc and lead concentrate to regional smelters and traders.

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

- an underground mine (the "**Shalkiya Mine**") in the Kyzylorda Region with current mining capacity of up to 1.2 million tonnes per annum; total zinc-lead ore reserves of the Shalkiya Deposit in the B, C₁ and C₂ categories amount to 129.3 million tonnes at a 3% zinc-equivalent cut-off grade under the KCRR. AMC estimated preliminary JORC Resources of the Shalkiya Deposit to be 5.5 million tonnes of zinc metal;
- a zinc-lead ore processing plant (the "**Kentau Plant**") near the town of Kentau in the Southern Kazakhstan Region, 165 km south-east of the Shalkiya Mine, with current processing capacity of 0.5 million tonnes of ore; and
- a zinc-lead ore deposit (the "**Talap Deposit**") 30 km south-west of the Shalkiya Mine, containing 11.1 million tonnes of ore reserves in the C₁ and C₂ categories and 0.5 million tonnes of zinc metal as pursuant to the KCRR, where the Company has recently completed exploration and is now in the process of designing the development programme.

The Company was established under the laws of Kazakhstan in April 2001. Its headquarters are located in the city of Almaty. As at 30 June 2006, the Company had 718 employees.

As at 30 June 2006, the Company had an accumulated deficit of KZT 2,996.7 million and its total liabilities exceeded its total assets by KZT 2,994.3 million. This condition indicates the existence of a material uncertainty which may cast significant doubt in connection with the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of its business.

Strategy

The Company's main strategic goal is to become one of the region's leading zinc producers by significantly increasing production from its current resource base and pursuing further acquisitions in Kazakhstan and regionally.

The Company's current objective is to increase mining of zinc-lead ore to 3.0 million tonnes per annum by 2010 and to increase the quality of zinc and lead concentrates produced. The Company intends to achieve its strategic objectives through:

- Modernisation and expansion of mining operations at the Shalkiya Mine, alongside an increase in the processing capacity of the Kentau Plant to up to 1.5 million tonnes of ore per annum by 2008;
- Construction of the New Processing Plant at the Shalkiya Mine with a capacity of up to 3.0 million tonnes of ore per annum by 2010;
- Development of resources and commencement of industrial production at the Talap Deposit;
- Further expansion of its resource base and operations domestically and regionally; and
- Improved access to financing.

Key strengths

The Issuer believes that the Company's key strengths include:

- Size and long-life of its asset base;
- Developed mining infrastructure;
- Proximity to main customers and major zinc consuming markets;
- Stable management team with experience in efficiently managing under-performing mining assets; and
- Strong positioning towards further expansion.

Summary reserves and resources information for the Company

In this prospectus, reserve estimates with respect to the Shalkiya Deposit have been reviewed by AMC on the basis of data prepared by the Company in accordance with the KCRR and have been substantiated by evidence obtained by AMC from site visits. AMC's observations are supported by details of drilling results, analyses and other evidence and take account of all relevant information supplied by the management of the Company and the Directors of the Issuer.

Reserve estimates with respect to the Talap Deposit have not been reviewed by AMC and are provided by the Company based on data prepared by the Company in accordance with the KCRR.

Summary Historical Financial and Operating Information for the Company

The summary information presented in Tenge set out below (other than “Operating data”, which has been extracted without material adjustment from the Company’s internal records), has been derived from, and should be read in conjunction with, the Company’s Financial Statements and the notes thereto, included elsewhere in this prospectus, which have been prepared in accordance with IFRS. The following information should also be read in conjunction with “Operating and Financial Review and Results of Operations of the Company” and the CPR included elsewhere in this prospectus.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽²⁾
	(audited)				(unaudited)		
	(KZT, million)			(US \$, thousand)	(KZT, million)		(US \$, thousand)
Income statement data							
Revenue	—	333.6	1,054.5	7,936.9	438.1	1,085.3	8,538.9
Cost of sales	—	(639.1)	(1,301.7)	(9,797.5)	(577.9)	(829.2)	(6,524.0)
Gross (loss)/profit	—	(305.5)	(247.3)	(1,861.4)	(139.8)	256.0	2,014.2
General and administrative expenses	(165.7)	(388.6)	(411.2)	(3,095.0)	(183.7)	(195.3)	(1,536.6)
Distribution costs	—	(26.1)	(46.3)	(348.5)	(24.9)	(29.8)	(234.5)
Other operating (expenses)/income, net ..	(0.3)	0.9	(2.5)	(18.8)	—	1.0	7.9
Operating (loss)/profit	(166.0)	(721.1)	(707.3)	(5,323.6)	(348.4)	31.8	250.2
Finance costs, net	(182.4)	(363.5)	(584.4)	(4,398.6)	(249.4)	(300.2)	(2,361.9)
Foreign exchange gain/(loss), net	69.1	104.1	(32.9)	(247.6)	(50.4)	169.7	1,335.2
Other income/(expenses), net	86.2	(12.4)	(9.4)	(70.8)	(4.0)	(4.9)	(38.6)
Loss before taxation	(193.0)	(993.0)	(1,334.0)	(10,040.6)	(652.3)	(103.5)	(814.3)
Taxation	—	—	—	—	—	—	—
Net loss	(193.0)	(993.0)	(1,334.0)	(10,040.6)	(652.3)	(103.5)	(814.3)

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 132.86 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 127.10 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2006.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽²⁾
	(audited)				(unaudited)		
	(KZT, million)			(US \$, thousand)	(KZT, million)		(US \$, thousand)
Cash flow data							
Cash (used in)/from operating activities ..	(388.6)	(1,180.4)	(583.9)	(4,394.9)	(468.6)	103.3	812.7
Cash (used in)/from investing activities ..	(1,093.8)	(404.8)	(4,597.1)	(34,601.1)	(188.7)	(95.3)	(749.8)
Cash from/(used in) financing activities ..	1,419.3	1,616.6	5,140.4	38,690.4	642.5	36.7	288.7
Net change in cash and cash equivalents	(63.1)	31.3	(40.6)	(305.6)	(14.8)	44.8	352.5

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 132.86 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 127.10 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2006.

	As at 31 December				As at 30 June	
	2003	2004	2005	2005 ⁽¹⁾	2006	2006 ⁽²⁾
	(audited)				(unaudited)	
	(KZT, millions)			(US \$, thousand)	(KZT, millions)	(US \$, thousand)
Balance sheet data						
Cash and cash equivalents	38.2	69.4	28.8	215.3	73.6	620.1
Total current assets	229.6	1,020.0	4,975.3	37,192.9	5,279.1	44,478.1
Total non-current assets	1,849.7	2,174.0	2,630.9	19,667.3	2,597.9	21,888.1
Total assets	2,079.3	3,194.0	7,606.2	56,860.3	7,877.1	66,367.0
Other current liabilities	8.9	6.0	12.3	91.9	36.9	310.9
Total current liabilities	22.0	295.1	4,325.6	32,336.1	4,328.1	36,465.6
Total non-current liabilities	2,621.0	4,455.7	6,171.4	46,134.4	6,543.3	55,129.3
Total partners' equity and liabilities	2,079.3	3,194.0	7,606.2	56,860.3	7,877.1	66,367.0

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 133.77 per \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at 31 December 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 118.69 per \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at 30 June 2006.

Operating data	Year ended 31 December			Six months ended 30 June	
	2003 ⁽¹⁾	2004 ⁽²⁾	2005	2005	2006
Ore mined (<i>tonnes, thousands</i>)	n/a	232	360	171	163
Ore processed (<i>tonnes, thousands</i>)	n/a	210	359	167	189
Metal content in ore processed (%)					
Zinc	n/a	3.3%	3.6%	3.3%	3.5%
Lead	n/a	1.0%	1.6%	1.6%	1.6%
Recovery of the metal in ore (%)					
Zinc	n/a	61.9%	64.2%	65.9%	60.0%
Lead	n/a	40.4%	38.1%	39.5%	33.5%
Sales of concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	9.2	17.9	7.7	8.8
Lead	n/a	2.4	6.2	3.0	2.9
Metal content in concentrate (%)					
Zinc	n/a	47.1%	46.2%	47.2%	45.0%
Lead	n/a	34.9%	35.1%	36.4%	34.2%
Metal content in concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	4.3	8.3	3.7	4.0
Lead	n/a	0.8	2.2	1.1	1.0

Notes:

- (1) No data available for 2003, as extraction and processing activities commenced in February and March 2004, respectively.
- (2) As of February or March 2004, when extraction and processing activities commenced, as applicable.

Directors

The members of the Issuer's Supervisory Board are Graham McCartney, Zhaksylyk Zharimbetov and Rifat Rizoyev, and the members of its Management Board are Marat Sarkytbayev, Samat Kazymov, Henk van Wijlen, Assylbek Abuov and Ramilya Azelgareyeva. Certain directors and senior managers of the Company have indirect ownership interests in the Issuer and will continue to do so following the Global Offer: Rifat Rizoyev owns 3,015,000 Shares indirectly through Zinc Investments B.V. III, Marat Sarkytbayev and Samat Kazymov together own 810,000 Shares in the Issuer indirectly through Zinc Investments I B.V., and Assylbek Abuov owns 675,000 Shares in the Issuer indirectly through Zinc Investments II B.V.

Summary of risk factors

An investment in the Offer GDRs involves certain risks, including (among others):

- a risk relating to a material uncertainty regarding the Company's ability to continue as a going concern;
- risks relating to the zinc and lead mining industries, such as the fluctuation of zinc and lead prices and the speculative nature of mineral exploration and development;
- risks relating to the Group's business and financial condition, such as information on reserves and resources estimates and currency fluctuations;
- risks relating to the economic, political, legal and regulatory environment in Kazakhstan, including a risk relating to the potential exercise of a pre-emption right by the State of Kazakhstan; and
- risks relating to the GDRs, such as liquidity and trading price.

THE GLOBAL OFFER

The Issuer	ShalkiyaZinc N.V.
The Company	LLP ShalkiyaZinc Ltd.
The Selling Shareholders	Zinc Investments I B.V., Zinc Investments II B.V., and Zinc Investments III B.V.
Offer Price	US \$7.25 per GDR (the “ Offer Price ”).
Shares	The Shares are ordinary shares in the share capital of the Issuer, each with a nominal value of €0.01.
GDRs	Each GDR will represent one-tenth of a Share and will be issued pursuant to a deposit agreement (the “ Deposit Agreement ”) to be dated on or about 13 December 2006 between the Issuer and the Depositary. Initially the GDRs will be evidenced by a single master GDR and will be registered in the name of a common nominee for Euroclear and Clearstream. Holders and beneficial holders of GDRs will have no rights against the Issuer pursuant to the Deposit Agreement, but will acquire certain rights against the Issuer pursuant to a deed poll to be dated on or about 13 December 2006 (the “ Deed Poll ”).
Rule 144A GDR Facility	Concurrently with the Global Offer, the Issuer and the Depositary have established a Rule 144A GDR facility pursuant to the Deposit Agreement. However, no Rule 144A GDRs are to be issued on the Closing Date or are otherwise to be sold in the Global Offer.
The Global Offer	<p>The Global Offer comprises in aggregate up to 16,100,000 Offer GDRs, including (i) 14,000,000 Firm GDRs to be delivered on the Closing Date (of which 11,500,000 GDRs represent newly-issued Shares offered by the Issuer and 2,500,000 GDRs represent existing Shares offered by the Selling Shareholders); and (ii) up to a maximum of 2,100,000 Over-allotment GDRs, representing existing Shares offered by the Selling Shareholders pursuant to the Over-allotment Option. The Offer GDRs are being offered outside of the United States to selected investors in accordance with Regulation S.</p> <p>Pursuant to an underwriting agreement (the “Underwriting Agreement”) dated 8 December 2006 between the Issuer, the Selling Shareholders and the Managers, each Manager has severally agreed that, subject to certain other conditions, it will acquire or procure acquirers for the Offer GDRs which are allocated pursuant to the Global Offer. Subject to these conditions, the Global Offer is fully underwritten by the Managers.</p>
Closing Date	The Offer GDRs are expected to be delivered to investors on or about 13 December 2006.
Over-allotment Option	The Selling Shareholders have agreed with the Stabilising Manager that it may, acting as principal, acquire or procure acquirers at the Offer Price for up to 2,100,000 Over-allotment GDRs, representing existing Shares made available by the Selling Shareholders, in order to cover over-allotments in connection with the Global Offer. The Over-allotment GDRs represent up to 15% of the Firm GDRs offered in the Global Offer.
Shares issued and outstanding	Prior to the Closing Date, the Issuer’s share capital consisted of 4,500,000 Shares issued and outstanding. On the Closing Date, following the issue of 1,150,000 new Firm Shares, the Issuer’s share capital will consist of 5,650,000 Shares issued and outstanding.

Transfer restrictions	The GDRs, including for the avoidance of doubt the Rule 144A GDRs, will be subject to certain transfer restrictions.
Voting rights	Each Share gives its holder one vote. The decisions at the general meeting of shareholders are taken by a simple or an increased majority of votes of Shares whose holders are present or represented by a proxy at the meeting. Holders of GDRs will be entitled to instruct the Depositary on how to vote the number of Shares their GDRs represent. As at the date of this prospectus, the Issuer's articles of association do not contain any limitations on the number of Shares or voting rights that may be held by any one or more persons.
Reasons for the Global Offer and use of proceeds	The principal use of the proceeds of the Global Offer, supplemented by the Group's existing cash resources and (if applicable) external, project or other financing, is to grow the Group's operations. The Issuer will receive 82.1% of the gross proceeds from the sale of the Firm GDRs, and will not receive any proceeds from any sale by the Selling Shareholders of Firm GDRs or of Over-allotment GDRs (if any). Expenses, including management and underwriting commissions and expenses payable by the Issuer in connection with the Global Offer, are estimated to be US \$5.5 million.
Dividends and dividend policy	The Issuer does not intend to pay dividends in the short- to medium-term. The Issuer intends to re-invest profits in order to finance its future growth.
Listing and market	Prior to the Global Offer, there has been no market for the GDRs. Applications have been made to (i) the FSA, in its capacity as competent authority for purposes of Part VI of the FSMA, for a block listing of up to 56,500,000 GDRs to be admitted to listing on the Official List; and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities under the trading symbol "SKZ". Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute official listing on a regulated market. Application has been made for the GDRs to be quoted on the London Stock Exchange's International Order Book.
Conditional dealings and commencement of trading	Dealings in the GDRs will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on or about 8 December 2006. It is expected that Admission will take place and unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on or about 14 December 2006. All dealings in the GDRs prior to the commencement of unconditional dealings will be on a conditional basis, will be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned.
Settlement and delivery of the Offer GDRs	Payment for the Offer GDRs will take place and successful applicants will be allocated Offer GDRs through Euroclear or Clearstream. It is expected that Euroclear or Clearstream accounts should be credited on or about the Closing Date. Upon Admission, the GDRs will be traded through the London Stock Exchange and prices will be quoted in US dollars. Application has also been made to have the Rule 144A GDRs (to the extent, if any, that they are issued in the future) accepted for clearance through the facilities of DTC.

Lock-up Each of the Issuer, the Selling Shareholders, their holding companies and ultimate individual shareholders has severally agreed not to: (a) issue, offer, lend, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, any Shares or GDRs or securities convertible into or exercisable or exchangeable therefor; (b) enter into any swap or other agreement that transfers any of the economic consequences of ownership of Shares or GDRs; or (c) publicly announce any intention to enter into any transaction described in (a) or (b) above, during the 180-day period (in respect of the Issuer) and the 360-day period (in respect of the Selling Shareholders, their holding companies and ultimate individual shareholders) beginning on the Closing Date, without the prior written consent of the Lead Manager, provided that the foregoing shall not apply to (i) the issue, offer and sale of the Offer GDRs and the sale of the Shares underlying such Offer GDRs pursuant to the Global Offer, and (ii) any issue, offer and sale by the Issuer of Shares or GDRs pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan for employees (including directors) or former employees of the Issuer or its subsidiaries, that the Issuer may adopt and that is approved by the Issuer's shareholders, if such approval is required under applicable laws, subject to an aggregate maximum of 5% of the Issuer's then outstanding share capital.

Documents on display Documents relating to the Global Offer will be on display at the offices of the Lead Manager at 60 London Wall, London EC2M 5TQ, England.

RISK FACTORS

Investing in the GDRs involves a high degree of risk. Prospective investors should carefully consider the following risk factors, and all information contained in this prospectus, before investing in the GDRs. Additional risks and uncertainties that the Issuer is not aware of or that the Issuer currently believes are immaterial may also adversely affect the Group's business, operating results and financial condition. If any of these events occur, the Group's business, operating results and financial condition could be materially and adversely affected, the price of the GDRs may decline and/or its ability to pay dividends could be impaired. Prospective investors should pay particular attention to the fact that the majority of the Group'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.

Risk relating to a material uncertainty regarding the Group's ability to continue as a going concern due to negative financial results

As at 30 June 2006, the Company had an accumulated deficit in the amount of KZT 2,996.7 million (US \$25.2 million) and its total liabilities exceeded its total assets by KZT 2,994.3 million (US \$25.2 million), while as at 31 December 2005, the Company's accumulated deficit was KZT 2,892.5 million (US \$21.6 million). In addition, the Company had a net loss of KZT 103.5 million (US \$0.8 million) in the six months ended 30 June 2006 and net losses of KZT 1,334.0 million (US \$10.0 million) in 2005, KZT 993.0 million (US \$7.3 million) in 2004 and KZT 193.0 million (US \$1.3 million) in 2003. The conditions described above indicate the existence of a material uncertainty which may cast significant doubt in connection with the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of its business. For further information on this matter, see the Auditors' Reports and Notes 2(a) and 2(b) to the Financial Statements appended to this prospectus.

Risks relating to the zinc and lead mining industries

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 Group's control.

Risks relating to the fluctuation of zinc and lead prices

The profitability of the Group's operations and the cash flows generated by these operations are to a large extent affected by changes in the market price for zinc and lead. In particular, the Company sells zinc and lead concentrates at sales prices which are linked to the prices of zinc and lead metal as quoted on the LME, adjusted for a number of factors, including transportation costs, costs of metallurgical treatment, concentrate processing and losses, zinc and lead concentrate grade and the level of concentration of non-metallic substances in zinc and lead concentrates. See "*Operating and Financial Review and Results of Operations of the Company — Factors Affecting the Company's Financial Performance — Zinc and Lead Prices*".

Market prices for zinc and lead concentrates can fluctuate widely, as a result of numerous factors, including:

- demand from industrial and retail users;
- product supply and availability;
- production costs of major zinc and lead producers;
- speculative and hedging positions taken by investors or traders;
- financial markets expectations regarding macroeconomic factors, including rates of inflation, currency rates and interest rates; and
- global or regional geopolitical or macroeconomic events.

For information on market prices for zinc over the past five years and the factors affecting such prices, see "*Industry Overview — Overview of the global zinc industry*".

As zinc price is highly volatile, it is possible that, as a result of a decline in zinc price, revenue from zinc sales may fall below the cost of production for an extended period, the Group may experience material losses and be forced to curtail or suspend some or all of its projects and/or operations. This may also affect the Group's

dividend payment policies or plans and may require the Group to reassess the financial impact of low zinc prices on its ability to maintain adequate cash and accounting reserves.

In general, declines in the zinc and lead prices could have a material adverse effect upon the Group's business, operating results and financial condition.

Speculative nature of mineral exploration and development

All mining operations are characterised 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. Zinc and lead ore exploration, in particular, involve a high degree of risk and exploration projects are frequently unsuccessful. Few prospects that are explored end up being ultimately developed into producing mines. Although the Group is not currently engaged in any active exploration project, it may do so in the future. To the extent that the Group may be involved in zinc-lead ore exploration in the future, the long-term success of the relevant projects will be related to the cost and success of the related exploration programmes. There can be no assurance that the Group's future zinc-lead ore exploration efforts will be successful. The risks associated with zinc-lead ore exploration include risks relating to the identification of potential zinc-lead ore mineralisation based on analysis of geological data and with raising the capital necessary for exploration and development of reserves.

If reserves are developed, a number of years may be required from the initial phases of drilling and identification of mineralisation until production becomes possible, during which time economic feasibility conditions for production may change. Substantial expenditure may be required to establish ore reserves through drilling, to determine metallurgical processes in order to extract metal from ore and, in cases of new properties, to construct the necessary mining and processing facilities. As a result of these uncertainties, there can be no assurance that exploration programmes will result in the discovery of reserves, the expansion of the Group's existing reserves or the development of mines.

The Group's current or potential future activities confront the above risks, as the Group currently is in the process of developing the reserves at the newly acquired Talap Deposit and may consider future acquisitions of deposits or mines. Any of the above risks could have a material adverse effect on the Group's business, operating results and financial condition.

Mining and processing risks

There are risks inherent in the development and exploitation of mineral deposits. The business of mining by its nature involves risks and hazards often outside the Group's control, including geological, geotechnical and seismic factors and production risks (ore grade/quality, tonnages and recovery/yields), industrial and mechanical incidents, unscheduled plant shutdowns or other processing problems, technical failures, labour disputes, environmental hazards, including the discharge of toxic chemicals, fire, drought, flooding and other acts of God. The exploration, development and production of natural resources is an activity that also involves financial risk.

As is common with all mining operations, there is uncertainty associated with the Group's operating parameters and costs. While costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and are often affected by factors and events outside of the Group's control.

The business of mining and mineral processing by its nature involves significant risks and hazards, any of which could have a material adverse effect on the Group's business, operating results and financial condition.

Risks relating to the Group's acquisition strategy

The Company has recently acquired the Talap Deposit, where exploration has been completed and the development phase has recently commenced. As Management believes that the Company is in an advantageous position to expand through acquisitions of further reserves and resources, the Company may consider a number of further acquisition opportunities of reserves or existing and operating mines and processing facilities in Kazakhstan and regionally.

There can be no assurance that the Company will be able to identify suitable acquisition targets, to negotiate appropriate terms for the acquisitions or to secure the financing necessary to complete such acquisitions. In addition, following the completion of any acquisition, the Company will be required to timely and effectively integrate the acquired assets or businesses into its existing operations, both at the production level and across the relevant management, operational and reporting systems, or to successfully explore, develop or exploit the relevant reserves or resources. A failure to identify suitable targets and negotiate appropriate terms for acquisitions may prevent the Company from growing its operations in accordance with its plans, while its

inability to successfully integrate acquired businesses or to successfully develop or exploit acquired assets, including the recently acquired Talap Deposit, may have a material adverse effect on the Company's business, operating results and financial condition.

Risks relating to environmental regulation and compliance

The Company's operations are subject to extensive environmental regulation (including regular environmental impact assessments and permits) in Kazakhstan. Environmental legislation in Kazakhstan consists of numerous regulations, which are not fully harmonised and may not be clearly or consistently interpreted. As a result, full environmental compliance may not always be ensured. In addition, regulation in Kazakhstan governing discharge of materials into the environment is likely to evolve in a manner which will require stricter standards of compliance, more stringent environmental assessment of proposed mining projects, a heightened degree of responsibility for culpable companies and their directors and employees and increased penalties for non-compliance. For more information regarding environmental regulation in Kazakhstan, see "*Regulation — Safety, health and environment*" and for information regarding the Company's environmental policies, see "*Annex C — Competent Persons' Report — 7. Shalkiya Environment, Health and Safety*".

There can be no assurance that the Company will be in a position to, or that it will, fully comply with evolving regulation in Kazakhstan or that it will not incur material additional costs of compliance with new environmental regulations. Non-compliance with environmental regulations or the increasing cost of compliance with such regulations could have a material adverse effect on the Group's business, operating results and financial condition.

As a result of the foregoing risks, project expenditures, production volumes and rates and cash operating costs, among other things, may be materially and adversely affected and may differ materially from what may have been anticipated. In addition, production and delivery schedules or schedules for the completion of construction projects may be delayed materially or even cancelled. Any such events could have a material adverse effect on the Group's business, operating results and financial condition.

Under the Subsoil Use Contracts the Company is required to maintain liquidation funds to be used upon the cessation of mining operations for environmental rehabilitation of lands covered by such contracts. No assurance can be given as to whether funds so accumulated will be sufficient to decommission the Company's mines and rehabilitate the relevant lands as and when required. In the event that these funds are insufficient to meet the cost of the Company's rehabilitation obligations, the Company will be obliged to fund any resulting shortfall.

Risks relating to the Group's business and financial condition

The Group's business, operating results and financial condition are largely dependent on a number of factors, including the structure of the Group, production costs, exchange and interest rates and the trading performance of members of the Group and, in particular, the Company.

Holding company structure and restrictions on distributions

The Issuer's ability to pay dividends will depend on the level of distributions, if any, it receives from its directly-held, wholly-owned subsidiary, the Company, and other current or future subsidiaries of the Group (the "**Subsidiaries**"). Each Subsidiary may from time to time be subject to restrictions on upstream distributions, as a result of factors such as restrictive covenants contained within loan and subsoil use contracts, agreements for the production and processing of zinc-lead ore and dolomite, foreign exchange limitations, regulatory, fiscal and other restrictions. There can be no assurance that any potential restrictions on dividends will not have a material adverse effect on the Group's business, operating results and financial condition, or the Group's ability to pay dividends to its shareholders in the future.

As the Company is a Kazakhstan resident company, payments of dividends from the Company to the Issuer are currently subject to a withholding tax of 15% in Kazakhstan, which could affect the trading price of the GDRs, subject to reduction under the applicable Kazakhstan/Netherlands Double Taxation Treaty. In accordance with this treaty, the effective withholding tax rate on dividends payable from the Company to the Issuer is reduced to 5%. For more information on the withholding tax on distributions in Kazakhstan, see "*Taxation — The Netherlands*".

Risks relating to weaknesses in the Company's internal controls and financial reporting processes

The Company has a limited operating history and is still developing systems related to its internal controls and financial reporting. In the course of performing the audit of the Company's financial statements for the years

ended 31 December 2003, 2004 and 2005, the Company's external auditors identified certain material weaknesses in the Company's internal control policies and procedures and proposed to the Company certain measures in order to address such weaknesses. In particular and among other things, the external auditors determined that the Company has not adopted formal policies regarding the processes of financial reporting and closing of relevant accounting periods and the segregation of duties regarding the preparation of financial statements. In addition, the Company's external auditors proposed that an independent review be performed on the Company's detailed classes of transactions and account balances containing estimates and judgments, and that the Company improve its accounting policies regarding, and implement written internal policies with respect to, cash and inventory management.

Management recognises that, as the Company expands its mining and processing operations, processes for internal controls and financial reporting will need to be further developed to respond to the growing demands of its business. Management is considering the findings and recommendations of the Company's external auditors and intends to take appropriate action in order to correct these issues. Management is also continuing to evaluate the need for improving internal control policies and intends to take measures to recruit additional staff and other resources in these areas to address these weaknesses. However, there can be no assurance that any such efforts will result in adequate or effective systems required for a public company. Effective internal controls are necessary for Management to produce timely and reliable financial reports and for external auditors to produce an accurate evaluation of the Company's business and financial condition. As a result, if Management fails to achieve and maintain effective internal controls over financial reporting as the business grows, investors could lose confidence in the reliability of the Group's financial statements, which could negatively impact the trading price of the GDRs.

Risks relating to the Company's contracts and licences

The Group's exploration, mining and processing activities are dependent upon the grant, renewal or continuance in force of appropriate subsoil use contracts, licences, permits and regulatory approvals and consents, which may be valid for a limited time period, subject to limitations and provide for withdrawal in certain circumstances. There can be no assurance that such subsoil use contracts, licences, permits and regulatory approvals and consents would be granted, renewed or continue in force, and, if so, on terms acceptable to Management.

In particular, the Company has entered into a subsoil use contract for the regulation of its activities in the extraction of polymetallic ores from the Shalkiya Mine with the Ministry of Energy and Mineral Resources of Kazakhstan ("**MEMR**"), which remains in effect until 2047 (the "**Shalkiya Contract**").

In addition, in 2004, Scientific and Technical Firm Geoinforminvest ("**Geoinforminvest**"), the Company's then 95% subsidiary (which has been recently merged with and into the Company), entered into a subsoil use contract for the exploration and extraction of polymetallic ores at the Talap Deposit with the MEMR, which remains in effect until 2024 (the "**Talap Contract**" and, together with the Shalkiya Contract, the "**Subsoil Use Contracts**"). The Company has succeeded by novation to Geoinforminvest's rights and obligations under this contract. Shalkinsky Crushed Stone Plant LLP, the Company's wholly-owned subsidiary, entered into a subsoil use contract for extraction of dolomite in the Ogizmuiz deposit with the Department of Entrepreneurship and Industry of the Kyzylorda Region and a subsoil use contract for the production of sand gravel aggregate, both of which remain in effect until 2024. For a summary of the provisions of the Subsoil Use Contracts, see "*Business Description — The Subsoil Use Contracts*".

The process of entering into new subsoil use contracts or extending or amending existing subsoil use contracts in Kazakhstan is time-consuming and may be complicated by the fact that several governmental ministries are involved in the substantive review and approval of the relevant contracts. The relevant laws and regulations are often ambiguous and may not be consistently applied by the authorities.

The Subsoil Use Contracts and related working programmes impose a range of obligations on the Company, and there may be adverse consequences for a breach of any of these obligations, ranging from penalties to, in extreme cases, suspension or termination of such contracts. Should a change of circumstances make it necessary for the Company to modify its obligations under the Subsoil Use Contracts or related working programmes, the Company may have to enter into discussions and negotiations with the appropriate governmental and/or regulatory authorities, apply for waivers and/or amendments to the terms of the contracts or related working programmes and/or, if necessary, execute amendments to the relevant terms of the Subsoil Use Contracts or related working programmes. There can be no assurance that regulatory authorities in Kazakhstan responsible for monitoring the Company's compliance with the terms of the Subsoil Use Contracts and related working programmes will be as receptive to proposals or applications by the Company in any future discussions in relation to the Company's obligations under the terms of these contracts or related working programmes as in the past, or

that the Company will be able to avoid any adverse consequences, if it is held in breach of its obligations under such contracts or related working programmes in the future.

Although to date there has not been any official material challenge to the validity of the Subsoil Use Contracts, the Company believes that it could be considered to be in technical breach of certain provisions under these contracts. In particular, the Company is in technical breach of the working programme under the Shalkiya Contract. In particular, during 2006, the Company carried out its activities in accordance with its own 2006 annual working programme, which contains substantial deviations from the working schedule contemplated in the Shalkiya Contract. The Company's annual programme has been approved by Yuzhkaznedra, the regional department of the MEMR, however, no corresponding changes have been made to the working programme under the Shalkiya Contract to reflect these deviations. In addition, the Company is in technical breach of certain provisions of Kazakhstan law and the Talap Contract relating to the Talap Deposit, which represents less than 10% of the Company's aggregate zinc-lead ore reserves under the KCRR, as the Company has not yet obtained an environmental permit, in connection with the Talap Deposit. The Company is undertaking every effort to rectify these breaches.

The Company believes that it has a good working relationship with the MEMR, which plays the most significant role in the approval process of subsoil use contracts, licences, permits and regulatory approvals and consents. However, there can be no assurance that the Company will not in the future experience challenges to the validity of its existing Subsoil Use Contracts or permits or difficulties in the approval of new subsoil use contracts, which could trigger suspension and subsequent termination of these contracts, if not timely cured by the Company.

For further information regarding the Company's subsoil use contracts, licenses, permits or regulatory approvals and working programmes, see "*Business Description — Subsoil Use Contracts*" and "*Regulation — Legal framework for grant of subsoil use rights by the State*".

Termination or suspension of the Subsoil Use Contracts or failure to secure or maintain in full force and effect the requisite licenses, permits or regulatory approvals in respect of any of the Company's operations, could have a material adverse effect on the Group's business, operating results and financial condition.

Risk relating to the Company's dependence on one mine and one processing facility

The Company is currently engaged in mining activities at only one mine, the Shalkiya Mine, and is using the processing facilities of only one processing plant, the Kentau Plant. As a result, its ability to efficiently continue its operations is dependent upon its ability to operate the Shalkiya Mine and the Kentau Plant in a cost-efficient and uninterrupted manner. Any event that could have an adverse impact on the operating costs of the Shalkiya Mine or the Kentau Plant, or require suspension or closure of any of these facilities, could have a material adverse effect on the Group's business, operating results and financial condition.

Risk relating to the Company's dependence on a limited number of customers

In 2005, 91% of the Company's revenue (or all of its revenue derived from sales of zinc concentrate) was derived from one customer, Almalyk Smelter, a state-owned plant in Uzbekistan, (the "**Almalyk Smelter**") through Cheriton Finance Limited, a UK-based trader. The balance of the Company's revenue is derived from a limited number of other customers, including Bozhou Alashankou, Sheng Kun Trade Co., Ltd. a Chinese legal entity (see "*Business Description — Products and Sales*"). Although the Company has not experienced any problems in its business relationships with these legal entities, there can be no assurance that there will be no reductions in the orders volumes or cessation of orders by any of these two key customers. Any such reduction or cessation of orders by these customers, in particular Cheriton Finance, would require the Company to seek alternative purchasers for its products.

In addition, the Company only produces zinc and lead concentrates, which unlike zinc and lead metals, are semi-finished products not quoted or traded on a commodities market. Furthermore, the grade of zinc and lead concentrates produced by the Company is relatively low and cannot be processed by a number of purchasers and processors of zinc and lead concentrates. As a result, the number of potential purchasers for the Company's products are relatively limited. A failure by the Company to timely secure purchasers for its products in the event of reduction or cessation of orders by its key customers at equally beneficial terms could have a material adverse effect on the Company's business, operating results and financial condition.

Risk relating to the Company's dependence on a limited number of sources of financing

The Company has long-term loans with Bank TuranAlem, a Kazakhstan bank, the aggregate outstanding principal amount, including interest, of which is currently in excess of KZT 6.3 billion (US \$49.9 million) was

KZT 8.79 billion (US \$74.1 million) as at 30 June 2006. Under the terms of the Company's loan agreements with Bank TuranAlem, Bank TuranAlem is entitled to request early repayment of the loans at any time and for no particular reason. A suspension or elimination of business transactions with Bank TuranAlem would require the Group to seek alternative financing sources. In such an event, a failure by the Group to timely secure financing at equally beneficial terms could have a material adverse effect on the Group's business, operating results and financial condition.

Risk relating to information on reserves and resource estimates

In this prospectus, the Balance Reserves of the Shalkiya Deposit have been prepared by the Company under the KCRR and reviewed by AMC in accordance with JORC Classification principles. AMC have also prepared an interim estimate of the Shalkiya Deposit resources under the JORC Classification at a 3% zinc-equivalent cut-off grade. AMC is currently conducting an ongoing exercise in order to reclassify the Balance Reserves of the Shalkiya Deposit in accordance with the JORC Classification. This exercise is still in progress, due to the large amount of data still to be processed, but AMC have stated in the CPR that results to date demonstrate a DataMine computerised estimate of the global JORC Resource is comparable to the Company's Balance Reserve estimate, when the same cut-off grade is used. Reserve and resource estimates with respect to the Talap Deposit have been prepared by the Company in accordance with the KCRR and have not been reviewed by AMC.

No assurance can be given in respect of the estimates presented in this prospectus that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realised or that mineral reserves will be mined or processed profitably. Actual reserves may not conform to geological, metallurgical or other expectations, and the volume and grade of ore recovered may be below the estimated levels. In addition, there can be no assurance that mineral recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions or during production. As a result, prospective investors should treat with caution the information on the Group's reserves and resources set out in the tables contained in "*Summary — Summary Reserves and Resources Information*" and "*Business Description — Main Assets — The Shalkiya Mine — Reserves*".

A number of factors outside the Group's control, including lower market prices, increased production costs, reduced recovery rates and other factors may render the Group's reserves uneconomic to exploit and may result in revision of its reserve estimates from time to time. Reserve data are not indicative of future results of operations. If the Company's actual mineral reserves and resources are proven to be less than current estimates, this could have a material adverse effect on the Company's business, operating results and financial condition.

Risk relating to the Company's reliance on national rail networks and third party rail lines

The Group depends on the Kazakhstan, Uzbek and Chinese national rail networks and on rail lines owned by third parties for the transportation of its products between its facilities and to its customers. In particular, zinc-lead ore must be transported from the Shalkiya Mine to the Kentau Plant by railway over three lines: (i) a line of 27 km, owned by the Company, connecting the Shalkiya Mine with the Zhanakogan rail station; (ii) a Kazakhstan national railway line of 94 km, owned by the Kazakhstan state rail company, connecting the Zhanakogan rail station with the Borisovka rail station; and (iii) a line of 44 km, owned by JSC Yuzhpolimetall, connecting the Borisovka rail station with the Kentau Plant. The railway lines referred to in items (i) and (ii) are in good condition, but the railway line referred to in item (iii) has not been repaired since 2004 and, therefore, requires significant capital investment to meet the Company's transportation requirements. See "*Business Description — Transportation*". The Company also uses the Kazakhstan, Uzbek and Chinese rail networks to transport its products to the Almalyk Smelter (its main customer for zinc concentrate) in Uzbekistan and to its customers in China, respectively.

While the Group has generally had access to sufficient railway capacity to transport its products in the past, no assurance can be given that it will continue to enjoy the same access in the future. Delays in transportation of the Group's products, as a result of insufficient railway capacity or service interruptions, could have a material adverse effect on its business, operating results and financial condition.

In addition, both Kazakhstan's and Uzbekistan's physical infrastructure have in some cases suffered from a lack of funding and maintenance, and further deterioration of such infrastructure could disrupt the transportation of products, increase the costs of doing business in Kazakhstan and Uzbekistan and interrupt business operations. If an accident or other event disrupts these transportation services, it could temporarily impair the Group's ability to supply its products to its customers or increase the costs of doing so. These events could have a material adverse effect on the Group's business, operating results and financial condition.

Furthermore, each of Kazakhstan, China and Uzbekistan exercises significant control over its rail system and rail tariffs. The Kazakhstan national rail system is a monopoly, and the rail tariffs must be approved by the National Monopolies Regulation Agency. The Kazakhstan national rail system is undergoing fundamental reorganisations, and the long-term effect this will have on rail tariffs and services is uncertain. Similarly, the Chinese rail system is a state-owned monopoly responsible for setting prices. Rail tariff increases in recent years generally have outpaced inflation, and there can be no assurance that such tariffs will remain stable in the future. Increases in the Group's transportation costs could have an adverse effect on the Group's business, operating results and financial condition.

Risk relating to the use of tailings management facility at Kentau

Tailings from the Kentau Plant are stockpiled in the Bayaldyr tailings dam. The Bayaldyr tailings dam is owned by the State and is leased by JSC Yuzhpolimetall. In order to ensure the Company's continued ability to stockpile tailings, a project for the raising of the walls of the Bayaldyr tailings dam has commenced with respect to the part of the dam used by the Company. The raising of the dam is financed by JSC Yuzhpolimetall, but the Company indirectly bears part of such expenses, as it pays JSC Yuzhpolimetall fees for stockpiling its tailings. See "*Business Description — Main assets — The Kentau Plant*". As the dam is leased by JSC Yuzhpolimetall from the State, there can be no assurance that the Company will be allowed to continue to use the dam for its operations, or that the raising of the dam will be completed in time to allow the Company to use it at the required capacity until 2010, when it plans to cease the operations of the Kentau Plant. Should the Company not be able or permitted to use the Bayaldyr tailings dam, this could have a material adverse effect on the Group's business, operating results and financial condition.

Project development risks

Essential elements of the Group's growth strategy are the increase in the capacity of the Company's existing mining operations at the Shalkiya Mine and processing at the Kentau Plant from the current level of 0.5 million tonnes of ore to 1.5 million tonnes by 2008 and the construction of a new zinc-lead ore processing plant (the "**New Processing Plant**"), which is scheduled to be completed by 2010, which the Group expects to enable it to mine and process up to 3.0 million tonnes of ore per annum.

The Company plans to expend KZT 2,046.1 million (US \$16.2 million) on increasing its mining and processing capacity at the Kentau Plant and the Shalkiya Mine and KZT 16,419.0 million (US \$130 million) for the construction of the New Processing Plant and the corresponding increase in the mining capacity (see "*Business Description — Strategy*"). The completion of the projects for the increase of processing and mining capacity at the Kentau Plant and the Shalkiya Mine and the construction of the New Processing Plant are subject to the Company obtaining numerous planning, regulatory, environmental and other consents, permits and assessments. In addition, as is often the case with large and complex technical projects, the Company may experience technical difficulties during construction, testing and commencement of production, which may not be resolved in a timely or cost-efficient manner or at all, or may incur cost overruns in connection with the completion of the projects, which it may not have sufficient financial resources to fund. No assurance can be given that the construction of the New Processing Plant and the projects for capacity increase at the Kentau Plant and the Shalkiya Mine will be completed as scheduled or at all. In particular, no assurance can be given that the requisite permits will be obtained in time or at all, or that the Company will be able to resolve technical difficulties, or afford to fund significant cost overruns in connection with the project. A failure to complete the New Processing Plant or the projects for capacity increase at the Kentau Plant and the Shalkiya Mine could have a material adverse effect on the Group's business, operating results and financial condition.

Risks relating to insurance

The insurance industry in Kazakhstan is not as developed as in more advanced economies and many forms of insurance protection typically used in more advanced economies, such as business interruption insurance, are unavailable. Kazakhstan law only requires mining companies to insure against certain limited types of risks. In addition, because Kazakhstan law currently prohibits foreign insurance companies from operating directly in Kazakhstan, the Kazakhstan insurance market only offers insurance against a limited range of risks associated with the Group's business, while reinsurance with an international insurance provider would substantially increase costs. As a result of its engagement in extraction and exploration activities, the Group may become subject to liabilities for hazards against which it either cannot obtain insurance, or may elect not to do so because of high insurance premium costs. Losses from uninsured risks may cause the Group to incur costs that could have a material adverse effect upon the Group's business, operating results and financial condition.

Risk of currency fluctuations

Substantially all of the Company's revenue is denominated in US dollars, as prices for zinc and lead concentrates are linked to prices for these respective metals quoted on the LME, while the majority of its operating costs are incurred, and the majority of its borrowings are denominated, in Tenge. As a result, the Company's operating results are affected by fluctuations in the exchange rate between the US dollar and the Tenge. In addition, the Group does not maintain any currency hedging arrangements and no established market exists in Kazakhstan for hedging currency risks. See "*Operating and Financial Review and Results of Operations of the Company — Factors affecting the Company's financial performance — Exchange rates*". If the Company continues to incur a large portion of its operating costs in Tenge, any significant and sustained appreciation of the Tenge against the US dollar could have a material adverse effect on the Group's business, operating results and financial condition.

Risk that the NBK may abandon its non-intervention policy in the foreign exchange markets

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the Tenge exchange rate against foreign currencies to float freely. While the NBK has stated it has no plans to resume a managed exchange rate policy, there can be no assurance that its exchange rate policy will not change in the future. Any subsequent decision to support the exchange rate of the Tenge could have a material impact on Kazakhstan's public finances and economy and could have a material adverse effect on the Group's business, operating results and financial condition.

Risk relating to lack of hedging arrangements

The Group has sold and continues to sell its zinc and lead concentrates at market prices and has not entered into forward sales, derivative or other hedging arrangements to establish a price in advance for the sale of its zinc and lead concentrates. In general, hedging in this manner reduces the risk of exposure to a fall in the zinc and lead concentrates prices. As the Group does not currently enter into transactions to hedge against the future price at which its zinc or lead products are sold and does not expect to do so in the near future, it is exposed to the negative impact of any decrease in the zinc and lead concentrates prices, which could have a material adverse effect upon the Group's business, operating results and financial condition.

Risk relating to dependence on key personnel

The Group's business depends in significant part upon the contribution of a number of the Group's key senior management and personnel. The Company's management team has been managing its business since its incorporation in 2001. There can be no certainty that the services of its key personnel will continue to be available to the Company and the Group. Factors critical to retaining the Group's present personnel and to attracting additional highly qualified personnel include the Group's ability to provide this personnel with competitive compensation arrangements. In addition, the Group does not currently maintain "key person" insurance. If the Group is not successful in retaining or attracting highly qualified personnel in key management positions, this could have a material adverse effect upon the Group's business, operating results and financial condition.

Risk relating to the accuracy of market, economic and industry data

Market, economic and industry data in this prospectus has been derived from various industry and other independent sources. Data presented in the "*Industry Overview*" section of this prospectus was derived from publicly available information, including press releases and public filings and industry research and consulting organisations. In particular, information presented in the subsection entitled "*Overview of the global zinc industry*" was mainly derived from information prepared and published by ILZSG, and information presented in the subsection entitled "*The Chinese perspective*" was sourced mainly from data made available by Antaika and ILZSG. Information presented in the subsection entitled "*Overview of the zinc industry in Kazakhstan*" was mainly derived from data contained in the Brook Hunt Report, which was prepared for AMC on behalf of the Issuer in November 2006, as well as publicly available documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. The estimate that the Balance Reserves of the Shalkiya Deposit represent approximately 30% of the country's total zinc Balance Reserves was also sourced from the Brook Hunt Report. There is not always a uniformity of views among such sources as to the information provided therein. As a result, although the Issuer confirms that the above information has been accurately reproduced from its sources, there can be no assurance regarding the accuracy and completeness of such information.

Risks Relating to Kazakhstan

General risk relating to emerging markets

Investors in companies whose assets are located in emerging markets, such as Kazakhstan, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, regulatory, economic and political risks. Investors should also note that emerging economies, such as Kazakhstan's, are subject to rapid change and that the information set out in this prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of these risks, investing in the GDRs is appropriate. Generally, investment in a company whose assets are located in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the GDRs.

Risks relating to the political and economic environment in Kazakhstan

The Company's mining operations are conducted in, and most of its assets are located in, Kazakhstan. Accordingly, the Company is substantially dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan's existence as an independent state resulted from the dissolution of the Soviet Union. As such, it has a relatively short history as an independent nation and there remains potential for social, political, economic, legal and fiscal instability. Although Kazakhstan has actively pursued a programme of economic reform and inward foreign investment designed to establish a free market economy, there can be no assurance that in the future such reforms and other reforms will continue. Risks relating to Kazakhstan include, among other risks, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes to tariffs applicable to the Company and its products, changes with respect to taxes, royalty rates, or withholding taxes on distributions to foreign investors; changes in anti-monopoly legislation, nationalisation or expropriation of property; and interruption or blockage of hydrocarbons or other strategic materials exports. In addition, government changes in Kazakhstan could affect investment climate in the country. See also "*Risks relating to the legal and regulatory environment in Kazakhstan*". The occurrence of any of these factors could have a material adverse effect on the business, financial condition and results of operations of the Group.

Since the dissolution of the Soviet Union, a number of former Soviet republics have experienced periods of political instability, civil unrest, military action or incidents of violence. Kazakhstan has not experienced any such unrest and, to date, this regional instability has not affected Kazakhstan or the Group's operations in Kazakhstan. However, future political instability, civil unrest or continued violence in the region could affect the political or economic stability of Kazakhstan, and could have an adverse effect on the Group's business, financial condition, results of operations or prospects.

Risk relating to potential exercise of a pre-emption right by the State of Kazakhstan

The Subsoil Law, as amended by the 2004-2005 Amendments, provides the State with a pre-emption right to acquire subsoil use rights and shares (or participation interests) in legal entities holding subsoil use rights or in legal entities having direct or indirect control over such legal entities holding subsoil use rights (if their core business is related to subsoil use in Kazakhstan), upon any transfer of such rights or interests. This pre-emption right permits the State to purchase any such subsoil use rights and/or shares (or participation interests) being offered for transfer on terms no less favourable than those offered by other purchasers. For more information on the State's pre-emption right, see "*Regulation — The MEMR and other regulatory authorities — State pre-emption right*".

It is unclear whether the pre-emption right could be exercised in respect of disposals which have occurred without the prior approval of the relevant governmental authority and whether, for instance, such transactions could be invalidated. As a result, it is unclear whether the pre-emption right could be exercised in respect of the acquisition by the Issuer of the entire share capital of the Company which took place on 20 November 2006, with respect to which the Company has already submitted an application for waiver of such pre-emption right by the relevant government authorities in connection with the Global Offer.

We cannot assure you that the State will not opt to exercise the pre-emption right over the acquisition of the Company's share capital by the Issuer, or the issue by the Issuer of new Shares, or sale by the Selling Shareholders of existing Shares in the form of GDRs (including pursuant to the Over-allotment Option) in the Global Offer, and apply to courts in order to hold the relevant agreements invalid. In the event that the State

exercises its pre-emption right in respect of any transfer of assets or equity interests within or to the Group, such exercise may have a material adverse effect on the trading price of the GDRs.

In general, although Management believes that the arrangements relating to the Global Offer are in compliance with the laws of Kazakhstan, the relevant governmental authorities are generally entitled to terminate a subsoil use contract, if they find that the Company has entered into arrangements which are in breach of the laws.

Risks relating to the legal and regulatory environment in Kazakhstan

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, tax, customs, currency, banking and competition are still developing, and uncertainties in the law could have a material adverse effect on the Group's operations. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. Furthermore, the judicial system in Kazakhstan may not be fully independent of social, economic and political forces. Court decisions may be difficult to predict and enforce, and the Group's best efforts to comply with applicable law may not always result in compliance. Furthermore, as the statutes on subsoil use do not define the course of action available to the government by reference to the gravity of a breach, a minor breach could conceivably lead to harsh consequences, such as suspension or termination of the subsoil user rights. Due to the relatively recent adoption of the subsoil use legislation, there are few precedents that would make the consequences of a breach more predictable.

Given Kazakhstan's short legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on the Group's business. The ongoing rights of the Group under its subsoil use contracts, licences and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain.

In addition, the Issuer has not applied for, and has not received clearance or consent from the Committee for Competition Protection of the Ministry of Industry and Trade of Kazakhstan with respect to the acquisition by the Issuer of the entire share capital of the Company which took place on 20 November 2006. Although the Issuer believes that such application and clearance or consent is not necessary under applicable laws of Kazakhstan, including, among other reasons, due to the fact that it does not have an impact on the Company's competitive position, the relevant legislation framework is largely untested and no relevant practice has crystallized. As a result, there can be no assurance that the Committee for Competition Protection will not seek to review the transaction or that it will not apply to court to have it invalidated.

If any of these risk factors were to materialise, it could have a material adverse effect on the business, financial condition and results of operations of the Group.

Risks relating to the GDRs and the Shares

No trading market for the GDRs or the Shares

Prior to the Global Offer, there has been no trading market for the GDRs. There is no assurance that an active trading market for the GDRs will develop or be sustained after the Global Offer, or that the price at which the GDRs will trade in the public market subsequent to the Global Offer will not be lower than the Offer Price. If no trading market develops for the GDRs, investors may experience difficulties in selling the GDRs. In addition, there is no trading market for the Shares represented by the GDRs, nor will there be any trading market for the Shares after the Global Offer. As a result, any holder of GDRs electing to cancel their GDRs and withdraw the Shares represented by such GDRs will have significant difficulty in disposing of such Shares.

If a substantial number of GDRs are offered for sale, the trading price of the GDRs may be depressed

Significant sales of additional GDRs into the public market following the Global Offer, on the London Stock Exchange or otherwise, could adversely affect the market price of the GDRs. Following the Global Offer, the Issuer's share capital will comprise 5,650,000 Shares issued and outstanding, including up to 1,150,000 new Firm Shares represented by 11,500,000 GDRs issued in connection with, and offered in, the Global Offer. Each of the Issuer, the Selling Shareholders, their holding companies and ultimate individual shareholders has severally agreed not to transfer or dispose of, whether directly or under option, warrant or other contract, any Shares or GDRs or any securities convertible into or exercisable or exchangeable therefor or any rights attaching to ownership thereof, or publicly announce any intention to enter into any such transaction, during the 180-day period (in respect of the Issuer) and the 360-day period (in respect of the Selling Shareholders, their holding companies and ultimate individual shareholders) from the Closing Date, without the prior written consent of the Lead Manager. Despite these restrictions on the Issuer, the Selling Shareholders and their respective shareholders, there can be no assurance that sales of substantial amounts of Shares or GDRs, will not occur during or following

the expiry of the periods during which these restrictions apply. Sales of substantial amounts of Shares or GDRs, or the availability of the Shares and GDRs for sale, could decrease the market price of the GDRs.

The market price of the GDRs is subject to fluctuation

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the GDRs may prove to be highly volatile. The market price of the GDRs may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including: variations in operating results in the Group's reporting periods; changes in financial estimates by securities analysts; changes in market valuation of similar companies; announcements by the Group of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; additions or departures of key personnel; any shortfall in revenue or net income or any increase in losses from levels expected by securities analysts; future issues or sales of GDRs; and stock market price and volume fluctuations. Any of these events could result in a material decline in the price of the GDRs.

The interests of current shareholders of the Issuer may conflict with those of the holders of the GDRs

Following the Global Offer, 75.22% of the Issuer's outstanding Shares (or 71.5%, if the maximum number of GDRs are sold pursuant to the Over-allotment Option) will be indirectly controlled by its majority shareholder, Rifat Rizoyev, and two other major shareholders, (see "*Principal and Selling Shareholders*"). As long as the Issuer's major shareholders continue directly or indirectly to own or control a majority of its share capital, they will be able to control the outcome of all matters requiring a simple majority vote of the Issuer's shareholders, including, but not limited to, the election and removal of Directors, proposed amendments to the Issuer's Articles of Association, (which govern the rights attaching to the Shares represented by the GDRs), and approval of acquisitions or disposals of significant subsidiaries or assets or other significant corporate transactions required to be subject to shareholder consent. Through their ability to control the election of Directors and their representation on the Supervisory Board and the Management Board, the major shareholders will also be able to collectively control or exert significant influence over the Group's policy decisions and its strategic direction. The interests of the major shareholders as a group may not be aligned with, and at times could conflict with, those of the holders of the GDRs, whose investment in the GDRs could be adversely affected by such conflicts.

REASONS FOR THE GLOBAL OFFER AND USE OF PROCEEDS

The aggregate gross proceeds from the Global Offer will be US \$101,500,000 million (assuming no exercise of the Over-allotment Option by the Managers), or US \$116,725,000 million (assuming full exercise of the Over-allotment Option by the Managers). The total net proceeds from the Global Offer, after deduction of management and underwriting commissions and expenses payable by the Group in connection with the Global Offer, are estimated to be US \$95,965,000 million (assuming no exercise of the Over-allotment Option by the Managers), or US \$110,565,250 million (assuming full exercise of the Over-allotment Option by the Managers).

The Issuer will receive 82.1% of the gross proceeds from the sale of the Firm GDRs, or net proceeds of US \$78,704,925 (the Issuer will bear the expenses of the Global Offer). The Issuer will not receive any portion of the proceeds from the sale by the Selling Shareholders of Firm GDRs or of Over-allotment GDRs, if any, pursuant to the Over-allotment Option. Zinc Investments I B.V. will receive 3.21%, Zinc Investments II B.V. will receive 2.68% and Zinc Investments III B.V. will receive 11.96% of the gross proceeds from the sale of the Firm GDRs. Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V. will also receive 18%, 15% and 67%, respectively, of the gross proceeds from the sale of the Over-allotment GDRs (if any).

The principal use by the Group of its share of the proceeds of the Global Offer, supplemented by the Group's existing cash resources and (if applicable) external, project or other financing, is to grow the Group's operations, including both organically and through selected acquisitions. The Group intends to use its net proceeds from the Global Offer primarily to provide funding for the purposes and in the priority set out below (for more information see "*Business Description — Strategy*"):

- Modernisation of, and capacity increase at, the Shalkiya Mine and the Kentau Plant;
- Construction of the New Processing Plant; and
- Repayment of long-term debt;
- General corporate purposes, including working capital.

In the event that attractive acquisition opportunities arise within the zinc resources sector prior to expenditure of the entirety of the net proceeds from the Global Offer on the above projects, provided that the Group is satisfied that it will be able to fund completion of these projects, the Group may use part of its share of the Global Offer proceeds in order to fund all or part of such acquisitions.

Pending investment, the net proceeds will be placed on deposit.

As a result of the Global Offer, existing shareholders will experience dilution of US \$2.89 per GDR, representing 40% of the Offer Price.

DIVIDENDS AND DIVIDEND POLICY

Neither the Issuer nor the Company has in the past paid dividends to their shareholders. As the Group is currently focusing on significantly increasing the scale of its business operations, the Issuer does not intend to pay dividends in the short- to medium-term, rather the Issuer intends to re-invest any cash from operations in order to fund its growth and enhance shareholder value.

BUSINESS DESCRIPTION

The Issuer

The Issuer, which is the Company's sole shareholder, was incorporated in The Netherlands on 6 November 2006. Prior to the completion of the Global Offer, the Selling Shareholders together held the entire share capital of the Issuer (see "*Principal and Selling Shareholders*").

The Issuer acquired the entire share capital of the Company on 20 November 2006 from the Company's previous shareholders, Denmar Assets Management Inc., LLP Polymetall Resources and LLP AgroNefit for the purchase price of KZT 78,000 (representing the nominal value of the Company's entire share capital), pursuant to a resolution of the Issuer's shareholders to that effect. For more information on the Company's shareholders prior to the acquisition of its entire share capital by the Issuer, see "*Principal and Selling Shareholders*". Except for the Company, the Issuer has no other operating subsidiaries or other assets and since the date of its incorporation, it has not commenced operations and has not prepared any financial statements. The Issuer expects to prepare its consolidated financial statements in accordance with IFRS.

The Company

Founded in 2001, the Company is one of the leading mining companies in Kazakhstan, engaged in the mining and processing of zinc-lead ore into zinc and lead concentrates.

The Company's B, C₁ and C₂ reserves of zinc, according to the KCRR, amount to 6,052 thousand tonnes at a 3% zinc-equivalent cut-off grade, including 5,527 thousand tonnes of the Shalkiya Deposit and 525 thousand tonnes of the Talap Deposit, as stated by the SCR. The Shalkiya Deposit is the largest known zinc deposit in Kazakhstan, representing approximately 30% of the country's total zinc reserves (*Brook Hunt Report*). See "*Industry Overview — Overview of zinc industry in Kazakhstan*". These Reserves are stated in accordance with Minutes No. 495-06-y, dated 28 March 2006 of the SCR with respect to the Shalkiya Deposit and Minutes No. 524-06-y dated 29 August 2006 of the SCR with respect to the Talap Deposit.

The following table sets out the Company's reserves, including those of the Shalkiya Deposit and the Talap Deposit, presented under the KCRR:

Reserve Category	Ore	Contained Metal		Ore Grade	
		Lead	Zinc	Lead	Zinc
	(tonnes, thousands)			(%)	
Balance Reserves	B	8,942	133	384	1.48% 4.29%
	C ₁	113,380	1,556	4,889	1.37% 4.31%
	C ₂	18,164	231	779	1.27% 4.29%
	Total	140,486	1,920	6,052	1.37% 4.31%
Off Balance Reserves		124,887	784	3,372	0.62% 2.70%

AMC is currently conducting an ongoing exercise in order to reclassify the reserves of the Shalkiya Deposit in accordance with the JORC Classification Code. This exercise is still in progress, due to the large amount of data still to be processed, but AMC have stated in the CPR that results to date demonstrate that a DataMine computerised estimate of the global JORC Resource is comparable to the Company's Balance Reserve estimate, when the same cut-off grade is used. This supports AMC's prediction that the estimates of JORC Reserves when they are completed will be similar to the Company's Mineable Reserve estimates, based on the KCRR at a 3% zinc-equivalent cut-off grade.

For information on independent review of these reserves at Shalkiya Deposit and further discussion on the comparability of the ore reserve classification systems, see "*Annex C — Competent Persons' Report — 4. Shalkiya Geology and Reserves — Reserves and Resources*".

In the six months ended 30 June 2006, the Company processed 189 thousand tonnes of zinc-lead ore and sold zinc concentrate containing 4.0 thousand tonnes of zinc. In 2005, the Company processed 359 thousand tonnes of zinc-lead ore and sold zinc concentrate containing 8.3 thousand tonnes of zinc. The Company sells zinc and lead concentrate to regional smelters and traders.

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

- Shalkiya Mine: an underground mine in the Kyzylorda Region with current mining capacity of up to 1.0 million tonnes of ore per annum; total zinc-lead ore reserves of the Shalkiya Deposit in the B, C₁ and

C₂ categories amount to 129.3 million tonnes at 3% zinc-equivalent cut-off grade under the KCRR. AMC has estimated preliminary JORC Resources, at the same cut-off grade, of the Shalkiya Deposit at 5.5 million tonnes of zinc metal;

- Kentau Plant: a zinc-lead ore processing plant near the city of Kentau in the Southern Kazakhstan Region, 165 km south-east of the Shalkiya Mine, with current processing capacity of 0.5 million tonnes of ore; and
- Talap Deposit: a zinc-lead ore deposit at Talap 30 km south-west of Shalkiya Mine, containing 11.1 million tonnes of ore reserves in the C₁ and C₂ categories and 0.5 million tonnes of zinc metal pursuant to the KCRR, where the Company has recently completed exploration and is now in the process of designing the development programme.

The Company was incorporated under the laws of Kazakhstan in April 2001. Its headquarters, from which its central management supervises mining and processing operations, are located in the city of Almaty, at 236A Bogenbai Batyr Street, Almaty 050026, approximately 1,000 km from the Shalkiya Mine and 800 km from the Kentau Plant. As at 30 June 2006, the Company had 718 employees.

History

The Shalkiya Deposit. The Shalkiya zinc-lead ore deposit was discovered in 1963. Exploration started in 1964 and continued until 1994. Kazakhstan's regulatory authorities formally approved the Balance Reserves of the Shalkiya deposit in 1996, and again most recently in March 2006. In 2001, the Company was awarded the Shalkiya Contract for a term of 45-years by the MEMR granting the exclusive right to engage in production of mineral resources at the Shalkiya Deposit. In 2006, the Company hired AMC to independently review and re-state its resources and reserves in accordance with the JORC Classification Code.

The Balanced Reserves of the Shalkiya Deposit as of 1 January 2006 have been approved on the basis of the following decisions of the SRC:

1. Minutes No. 351-04-U dated 7 December 2004 of the SRC on estimation of the reserves (and Minutes No. 313-04-K dated 2 June 2004 of the SRC on the feasibility study of conditions of the North-Western section of the Shalkiya Deposit); and
2. Minutes No. 495-06-U dated 28 March 2006 of the SRC on estimation of the reserves (and Minutes No. 452-05-K dated 21 October 2005 of the SRC on the feasibility study of conditions of the South-Eastern section of the Shalkiya Deposit).

See “— *Main assets — The Shalkiya Mine*” for a table setting out the reserves of the Shalkiya Mine, as reviewed by AMC, and based on data initially prepared by the Company.

The Shalkiya Mine. Construction of the Shalkiya Mine commenced in 1984 and ended in 1990 under a project designed by Giprotsvetmet, a leading Moscow-based scientific research institute. This project provided for the construction of the underground mine in several stages, starting with an initially designed capacity of 1.0 million tonnes of ore per annum and then increasing the mining capacity to 3.0 million tonnes. The infrastructure installed aimed at servicing mining operations at 3.0 million tonnes of ore per annum. Up to US \$250 million was invested over that period in the construction of the mine and the relevant infrastructure.

Until 1994, the mine was operated by Achpolimetal, a Kazakhstan state-owned joint stock company, which had produced a total of 1.8 million tonnes of zinc-lead ore before closing the operations and abandoning the mine due to lack of funding. That company eventually went into liquidation and its assets, including the Shalkiya Mine, were sold through a court-administered auction to the Company for US \$1.4 million in June 2001.

From 2002 to 2004, the Company invested US \$10 million in a programme of rehabilitating the Shalkiya Mine as well as the processing facilities of the Kentau Plant (described below). The Shalkiya Mine then re-commenced extraction activities in February 2004, and by 30 June 2006, it had produced 760 thousand tonnes of ore. For an overview of the Company's principal investments in the period from 1 January 2003 to 30 June 2006, see “— *Main assets — The Shalkiya Mine* and “— *Main assets — The Kentau Plant*”.

In 2005, the Company commissioned a Scoping Study to help determine a strategy for further developing the Shalkiya Mine. The study was performed by Independent Engineers (Australia) Pty Ltd. and concluded that the most feasible strategy would be to increase mining at the Shalkiya Mine to 3.0 million tonnes per annum, pursuant to the original Giprotsevmet design, and construct a new on-site processing plant with the same capacity at Shalkiya to replace the Kentau Plant.

Following the Scoping Study, the Company engaged Outokumpu Technology Oy (Finland) (“**Outokumpu**”) to prepare a pre-engineering study (comparable in terms of accuracy to a pre-feasibility study) for the New Processing Plant, with a capacity of 3.0 million tonnes of ore per annum. Outokumpu has also performed necessary metallurgical test-work and major equipment specification.

The Kentau Plant. The Kentau Plant was originally built in 1963 to process ore extracted on site from the Mirgalimsay zinc and lead mine. With annual capacity of 4.0 million tonnes of ore, it was one of the largest ore processing plants in the former Soviet Union (the “**FSU**”). The Mirgalimsay mine was exhausted in 1992 and the Kentau Plant was largely non-operational, aside from intermittent processing of barite. In June 2003, the Company purchased the Kentau Plant from JSC Yuzhpolimetall for US \$6.0 million with the intention of processing ore from the Shalkiya Mine until construction of the New Processing Plant by 2010.

The Talap Deposit. The Talap Deposit was discovered in 1984. Preliminary exploration of the Talap Deposit was carried out between 1986 and 1992. Following an auction in 2004, the Company’s then 95% subsidiary, Geoinforminvest (of which the Company acquired the remaining 5% in August 2006, and which was subsequently merged with the Company), was awarded the Talap Contract for a term of 20 years by the MEMR (the “**Talap Contract**”) granting the exclusive right to carry out exploration and mining at the Talap Deposit. Upon signing of the Talap Contract, Geoinforminvest paid the Government a bonus of US \$50 thousand and a further US \$118 thousand in compensation for prior exploration works carried out on the Talap Deposit. The Company succeeded by novation to Geoinforminvest’s rights and obligations with respect to the Talap Contract. By September 2006, the Company completed its exploration programme thereunder, Reserves having approved by the SCR, and is now in the process of designing the development programme for the mining operations at the deposit. See “— *The Subsoil Use Contracts — The Talap Contract*”.

See “— *Main assets — The Talap Deposit*” for a table setting out the Reserves of the Talap Deposit, based on data initially prepared by the Company in accordance with KCRR.

Capital Expenditure

For the three years and six months ended 30 June 2006, the Company has made total capital investments of KZT 2,245 million (US \$17.8 million). These include, among other items, the purchase price of KZT 903 million (US \$6 million) paid in 2003 for the acquisition of the Kentau Plant, KZT 1,222.7 million (US \$9.7 million) for equipment and KZT 119.3 million (US \$0.9 million) for capitalised reconstruction and repair works.

Prior to that period, in 2001, the Company paid a purchase price of KZT 200 million (US \$1.4 million) for the acquisition of the Shalkiya Mine.

The following table shows the Company’s total capital expenditures for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2006:

	Year ended 31 December			Six months ended
	2003	2004	2005	30 June 2006
	(KZT, millions)			
Total capital expenditures	1,060.3	418.4	564.2	202.1

These capital expenditures were financed primarily by long-term bank loans granted to the Company by Bank TuranAlem. For further information about the Bank TuranAlem loans, see “*Operating and Financial Review and Results of Operations of the Company — Liquidity and Capital Resources — Capital resources*”.

Strategy

The Company’s main strategic goal is to become one of the region’s leading zinc producers by significantly increasing production from its current resource base and pursuing further acquisitions domestically and regionally.

The Company’s current objective is to increase mining of zinc-lead ore to 3.0 million tonnes per annum by 2010, and to increase the quality of zinc and lead concentrates produced. The Company intends to achieve its strategic objectives through:

Modernisation and expansion of mining operations at the Shalkiya Mine, alongside an increase in the processing capacity of the Kentau Plant to up to 1.5 million tonnes of ore per annum by 2008

The Company plans to expand the mining capacity of the Shalkiya Mine and to modernise and increase the processing capacity of the Kentau Plant from its current level of 0.5 million tonnes of ore per annum, to

1.5 million tonnes by 2008. The Company expects that the upgrade of the facilities at the Kentau Plant will also improve the recovery rate of zinc and lead concentrate produced and the quality of the concentrate sold. The Company expects to invest US \$16.2 million for the completion of these projects.

Construction of the New Processing Plant

The Company intends to further expand mining at the Shalkiya Mine and construct the New Processing Plant on the Shalkiya site by 2010 with processing capacity of up to 3.0 million tonnes of ore per annum. The Company intends to invest US \$130 million in this project, of which US \$87 million is expected to be used for the construction of the New Processing Plant and the remaining US \$43 million on expanding the mining output of the Shalkiya Mine and other expenditures. Following commencement of production at the New Processing Plant, the Company intends to cease using the Kentau Plant by 2010, which is expected to result in significant savings in transportation costs and substantial savings in maintenance and capital expenditures currently required to maintain the old facilities. In addition, the Company may also consider building a fully-integrated operation at the Shalkiya site with the potential addition of a metallurgical plant in the future. See “— *Main assets — The New Processing Plant*”.

Development of Reserves and commencement of industrial production at the Talap Deposit

The Company has recently completed an exploration programme at the recently acquired Talap Deposit, which confirmed its ore Reserves in the amount of 11.1 million tonnes in the C₁ and C₂ categories containing 0.5 million tonnes of metal, as approved by the SCR under the KCRR. The Company has commenced designing the development programme of the Talap Deposit, following the completion of which it plans to commence mining activities.

Further expansion of the resource base and operations domestically and regionally

Management believes that following the successful relaunch of mining operations at the Shalkiya Mine and expansion of the Kentau Plant, the Company is well-positioned to further expand the scale of its operations and resource base. To this end, the Company may consider selective acquisitions of existing mining and processing facilities in Kazakhstan and regionally, as well as exploration rights to new deposits and the commencement of greenfield operations.

Improved access to financing

Management believes that the Company's listing will benefit the Company's international profile and will provide the Company with easier access to capital markets financing in order to finance its capital expenditure plans, both of which should enhance value to its current and future shareholders.

Key strengths

Management believes that the Company's key strengths include:

Size and life of the asset base

The assets of the Shalkiya Deposit and the Talap Deposit have resources estimated to support planned production for over 45 years with the operation of the New Processing Plant at Shalkiya. The Shalkiya Deposit is the largest known zinc deposit in Kazakhstan, representing approximately 30% of the country's total zinc Reserves (*Brook Hunt Report*). The Company intends to continue exploiting its ample resource base by upgrading its infrastructure and expanding mining and processing operations to significantly increase production volumes.

Developed mining infrastructure

The Shalkiya Mine was originally designed by Giprotvetmet, a leading Moscow-based mining research and design institute. Following its design, approximately US \$250 million was invested into the construction of the mine, including a substantial part of the infrastructure required to support mining operations at a capacity of 3.0 million tonnes of ore per annum. As a result, the Company benefits significantly from an established underground mine and surface infrastructure which will require only a limited amount of additional capital investment (estimated at approximately US \$43 million) in order to increase mining output in accordance with the Company's plans to 3.0 million tonnes of ore per annum. Such expenditure represents only a fraction of what would be required to establish a new similar mine of equivalent capacity.

Proximity to main customers and major zinc consuming markets

The Company's major current off-taker of zinc concentrate, the Almalyk Smelter, is located in Uzbekistan, 350 km from the Kentau Plant. In addition, Kazakhstan borders with Russia and China, which over recent years have exhibited high rates of economic growth, resulting in growing levels of zinc consumption. China, which is a

market for the Company's concentrate, represented 27% of global zinc consumption, and its economy grew by an average growth rate of 9.9% in 2005 see "Industry Overview". Given the short transport distance to China, Russia and Uzbekistan, the Company is well-positioned to cost-effectively access these growing zinc markets and to benefit from the growth of zinc consumption in these markets.

Management team with experience in efficiently managing under-performing mining assets

The Company has a stable management team with significant experience in the industry, having managed the Company's operations since the acquisition of its assets at a bankruptcy auction in 2001. Over this short period of time, the management team has rehabilitated the Shalkiya Mine, commenced production and increased output to the current levels of approximately 0.5 million tonnes per annum. Last year, the management team also acquired additional Reserves through the acquisition of the Talap Deposit, while supervising the design and/or implementation of major business development projects at the Shalkiya Mine and the Kentau Plant. In addition, the Issuer's Supervisory Board has been enhanced with the addition of a non-executive director with significant experience in the international mining industry.

Strong positioning towards further expansion

Management believes that the Company is in a strong position to expand through further acquisitions. Having recently acquired the Talap Deposit, where exploration has been completed and the development phase has recently commenced, the Company selectively considers acquisitions of existing mining and processing facilities in Kazakhstan and regionally, as well as exploration rights to new deposits and the commencement of greenfield operations. The size of the Company's current orebody can support further expansion in the future, including the possibility of supporting a fully-integrated operation at the Shalkiya site with the potential addition of a metallurgical plant in the future.

Main assets

The Company's assets are located in southern Kazakhstan in the Kyzylorda Region and the South Kazakhstan Region. The following map shows the location of the Company's main assets:



The Shalkiya Mine

In May 2002, the Company concluded the Shalkiya Contract with the MEMR, under which the Company was granted the exclusive right to engage in production of mineral resources at the Shalkiya Deposit for a term of

45 years. For a more detailed description of the Shalkiya Contract see “— *The Subsoil Use Contracts — The Shalkiya Contract*”.

The Company recommenced extraction activities at the Shalkiya Mine in February 2004. The Shalkiya Mine is located on the south-western foreland of the Karatau Ridge in the Kyzylorda Region. It is 15 km to the north-east of the regional centre and railway station in Zhanakorgan. The population of the Zhanakorgan district is 68 thousand, including 21 thousand in the city of Zhanakorgan.

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, Kyrgystan, Russia and China. The railway station Zhanakorgan is connected to the Turkestan-Kyzylorda motorway and the main railway line Atalsk-Kyzylorda-Zhanakorgan-Turkestan-Shymkent see “— *Transportation*”.

Exploration. The Shalkiya Deposit was discovered in 1963 and consists of the North-Western and South-Eastern sections as defined by the exploration programme. Exploration of the North-Western section of the Shalkiya Mine was conducted in three stages: preliminary exploration from 1964 to 1968, detailed exploration from 1972 to 1975 and a final detailed resource delineation phase completed from 1976 to 1979. These Reserves were approved several times since 1979 by the FSU authorities in the Soviet era and in 1996 were again approved by Kazakhstan authorities under the KCCR. The South-Eastern section was also explored in three stages. The same two mineralised horizons that had been found in the North-Western section were traced and delineated by surface core drilling to a depth of 800m.

Kazakhstan’s regulatory authorities formally approved the Shalkiya Deposit Reserves in 1996 upon completion of the exploration programme, and most recently in March 2006. For more information on exploration undertaken at the Company’s principal deposits, see “*Competent Persons’ Report — 3. History of Development — 3.1 Shalkiya Mining Operations — Exploration and Ore Resources*”.

Resources. In connection with the Global Offer, AMC has reviewed the Company’s stated 129 million tonnes of ore reserves at the Shalkiya Deposit approved by the SRC on 28 March 2006 using JORC classification principles. Based on this review, AMC has prepared the statement set out below, which has been extracted without material adjustment from the CPR, of the Company’s Mining Reserves. For information on some of the risks associated with ore reserve estimation, see “*Risk Factors — Risk relating to information on reserves and resources estimates.*”

Shalkiya Deposit Balance Reserves

The following table sets out the Balance Reserves of the Shalkiya Deposit stated according to the KCR, which have been reviewed by AMC in accordance with JORC Classification principles. AMC have also prepared an interim estimate of the Company's resources under the JORC Classification at a 3% zinc cut-off grade.

Asset	Kazakh Classification Category ⁽¹⁾	Balance Reserve at 3% Zinc equivalent cut-off ⁽¹⁾				JORC Mineral Resources at 3% Zinc equivalent cut-off ⁽²⁾						
		Quantity of Ore (tonnes, million)	Grade Lead (%)	Grade Zinc (%)	Contained Metal Lead (tonnes, thousands)	Contained Metal Zinc (tonnes, thousands)	JORC Resource Category	Quantity of Ore (tonnes, million)	Grade Lead (%)	Grade Zinc (%)	Contained Metal Lead (tonnes, thousands)	Contained Metal Zinc (tonnes, thousands)
North-Western Section (in categories):	B	6.6	1.4	4.3	91.6	286.1	Measured	26.9	1.3	4.1	347.1	1,089.4
	C ₁	44.3	1.1	4.4	494.9	1,943.7	Indicated	35.7	0.7	4.1	263.8	1,470.6
	C ₂	8.1	1.0	4.2	78.5	340.7	Inferred	0.3	0.6	3.6	1.7	10.1
North-Western Section Total		59.0	1.1	4.4	665.0	2,570.5		62.8	1.0	4.1	612.6	2,570.2
South-Eastern Section (in categories):	B	2.4	1.7	4.1	40.9	97.8	Measured	6.6	1.6	4.0	103.7	267.2
	C ₁	61.6	1.4	4.2	875.6	2,584.4	Indicated	65.5	1.2	4.0	769.7	2,620.4
	C ₂	6.5	1.2	4.3	75.9	274.9	Inferred	1.1	0.8	4.1	8.5	46.3
South-Eastern Section Total		70.4	1.4	4.2	992.4	2,957.1		73.3	1.2	4.0	881.9	2,933.9
Shalkiya Deposit Total (in categories):	B	8.9	1.5	4.3	132.5	383.9	Measured	33.5	1.3	4.1	450.8	1,356.6
	C ₁	105.8	1.3	4.3	1,370.5	4,528.1	Indicated	101.2	1.0	4.0	1,033.5	4,091.0
	C ₂	14.6	1.1	4.2	154.4	615.6	Inferred	1.4	0.7	4.0	10.2	56.5
SHALKIYA DEPOSIT TOTAL		129.3	1.3	4.3	1,657.4	5,527.6		136.1	1.1	4.0	1,494.4	5,504.0

Source: The Company.

Notes:

(1) As at 1 January 2006.

(2) Estimated by AMC from surface drilling database, mining depletion not taken into account.

Mining. After several years of rehabilitation of the Shalkiya Mine following its purchase in 2001, the Company commenced mining activities in February 2004. There are currently three shafts in the North-Western section:

- the production shaft, with a capacity of up to 1.2 million tonnes of ore per annum;
- the service shaft, used for hoisting personnel and equipment; and
- the hoisting shaft designed for ore and rock hoisting.

The production shaft is currently in operation and the other two shafts are expected to be operational upon increase of output to up to 3.0 million tonnes. The mine produced 360 thousand tonnes of zinc-lead ore in 2005 and 163 thousand tonnes in the first six months of 2006.

The following mining methods are used at the Shalkiya Mine’s underground operations: slot raise open stoping; room-and-pillar; and room-and-pillar with pillar extraction. Mining facilities operate two shifts per day, 340 days per annum and employed 411 workers as at 30 June 2006. For more information on the Company’s mining activities, see “*Annex C — Competent Persons’ Report — 5. Shalkiya Mining — Mining Methods*”.

Based on the Company’s currently estimated Mining Reserves, it is expected that the current mining rate can be maintained for at least 25 years, and that mine life will, therefore, extend past the 30-year period that has been assumed in the Production Schedule of the CPR. See “*Annex C — Competent Persons’ Report — 8. Cash Flow and Valuation — Production Schedule*”.

The table below sets out historical data on the Company’s mining operations for the years 2003, 2004 and 2005 and the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June	
	2003 ⁽¹⁾	2004 ⁽²⁾	2005	2005	2006
Ore mined (tonnes, thousands)	n/a	232	360	171	163

Notes:

- (1) No data is available for 2003, as extraction and processing activities commenced in February and March 2004, respectively.
- (2) As of February or March 2004, when extraction and processing activities commenced, as applicable.

The Kentau Plant

The Company purchased the Kentau Plant in June 2003 from JSC Yuzhpolimmetall for US \$6.0 million (KZT 903 million). The Kentau Plant commenced processing activity in March 2004 and currently produces zinc concentrate, which accounts for 75% of the Company’s sales by volume, and lead concentrate, which accounts for the remaining 25% of the Company’s sales by volume.

The ore is delivered from the Shalkiya Mine located in the Kyzylorda Region to the Kentau Plant in the South Kazakhstan Region on a 165 km railway line and is processed into lead and zinc concentrates using conventional flotation technology. As the Company has so far only completed rehabilitation of one line of the crushing, milling and flotation facilities within the Kentau Plant, the plant currently has capacity to process 0.5 million tonnes of ore per annum. Processing facilities operate in two 12-hour shifts per day, 340 days per annum and currently employ 278 workers. For more details regarding technology and equipment used at the Kentau Plant, see “*Annex C — Competent Persons’ Report — 6. Shalkiya Ore Processing — 6.2 Kentau Processing Operations — Current Operations*”.

In 2005, the Company produced 17.9 thousand tonnes of zinc concentrate and 6.2 thousand tonnes of lead concentrate at the Kentau Plant. In the first six months of 2006, output amounted to 8.8 and 2.9 thousand tonnes of zinc and lead concentrates, respectively. The table below provides historical production information for the

Kentau Plant for the years ended 31 December 2003, 2004 and 2005 and the six-month periods ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June	
	2003 ⁽¹⁾	2004 ⁽²⁾	2005	2005	2006
Ore processed (<i>tonnes, thousands</i>)	n/a	210	359	167	189
Metal content in ore processed (%)					
Zinc	n/a	3.3%	3.6%	3.3%	3.5%
Lead	n/a	1.0%	1.6%	1.6%	1.6%
Recovery of the metal in ore (%)					
Zinc	n/a	61.9%	64.2%	65.9%	60.0%
Lead	n/a	40.4%	38.1%	39.5%	33.5%
Sales of concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	9.2	17.9	7.7	8.8
Lead	n/a	2.4	6.2	3.0	2.9
Metal content in concentrate (%)					
Zinc	n/a	47.1%	46.2%	47.2%	45.0%
Lead	n/a	34.9%	35.1%	36.4%	34.2%
Metal content in concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	4.3	8.3	3.7	4.0
Lead	n/a	0.8	2.2	1.1	1.0

Notes:

- (1) No data available for 2003, as extraction and processing activities commenced in February and March 2004, respectively.
- (2) As of February or March 2004, when extraction and processing activities commenced, as applicable.

Zinc and lead concentrates currently produced by the Company are relatively low-grade. The zinc concentrate had average metal content of 46% in 2005 and 47% in 2006. This is at the lower end of the range of zinc contents of commercially traded concentrates, which typically contain up to 55% of zinc. The silica content in the concentrate is also relatively high at 15%, compared to 3% to 5% in concentrates normally accepted by smelters without penalties. This limits the number of potential off-takers of the Company's products, as most of them would have to make additional investments to process the Company's zinc concentrate. Lead concentrate currently produced by the Company is also relatively low-grade with average 35% and 36% lead content achieved in 2005 and 2006, respectively, compared to an industry average of above 50%.

As the Company plans to expand the mining capacity of the Shalkiya Mine through the introduction of additional equipment, it is also planning to increase the processing capacity of the Kentau Plant from its current level of 0.5 million tonnes of ore per annum to 1.5 million tonnes by 2008. The Company expects the upgrade of the facilities at the Kentau Plant to result in a higher recovery rate of zinc in zinc concentrate and lead in lead concentrate. It is anticipated that the recovery rate for zinc will rise to 64% in a concentrate containing 47% of zinc and that 40% of lead will be recovered to a concentrate containing 39% of lead. The Company intends to invest US \$16.2 million in the completion of these projects. For more information on the project of increasing annual processing capacity at the Kentau Plant to 1.5 million tonnes of ore, see "Annex C — Competent Persons' Report — 6. Shalkiya Ore Processing".

Tailings, the waste materials from ore processing, are stock-piled at the Bayaldyr tailings dam, which is located at a 4 km distance from the Kentau Plant. The dam is the property of the State and two-thirds of it was closed down by governmental decision in 1999. One-third of the dam is currently leased by JSC Yuzhpolimetall, which in turn uses this capacity for storage of the Company's tailings under a relevant contract. JSC Yuzhpolimetall is responsible for maintaining the dam, while the equipment, such as pipelines and pumping stations, are owned by the Company.

JSC Yuzhpolimetall is currently implementing construction works to raise the capacity of the dam to accommodate tailings from the 1.5 million tonnes of ore processing output anticipated at the Kentau Plant until the time of closure, expected by 2010. The construction works are financed by JSC Yuzhpolimetall, but the Company indirectly bears part of these expenses, as it pays to JSC Yuzhpolimetall fees for the stockpiling of its tailings. For more information on the disposition of waste by the Company, see "Annex C — Competent Persons' Report — 6. Shalkiya Ore Processing — Current Operations".

Under applicable Kazakhstan law, the tailings dam contains minerals derived from a technological process and, as such, is the property of the State. As a result, the Government is responsible for the tailings (including closure

and reclamation of the tailings dam) deposited before 1992, the amount of which is significant, and provides financing for the related works which are performed by the regional state-owned company, Kentaulikvidrudnik. The latter is currently implementing a reclamation programme on two-thirds of the abandoned surface of the dam. The Company does not bear any responsibility for the dam's future closure and reclamation.

The New Processing Plant

In 2005, the Company commissioned a Scoping Study to help determine a strategy for further development of the Shalkiya Mine. The study was performed by IEA and concluded that the most feasible strategy would be to increase mining at the Shalkiya Mine to 3.0 million tonnes of ore per annum and construct a new on-site processing plant with the same capacity.

Following the Scoping Study, the Company commissioned Outokumpu to prepare a pre-engineering study (comparable in terms of accuracy to a pre-feasibility study) of the New Processing Plant. Outokumpu performed necessary metallurgical test-work and major equipment specification in 2006 and is currently proceeding to the next stage of the project, basic plant engineering design, in order to commence construction works by the end of 2007 with an aim to complete construction by 2010. Outokumpu expects the New Processing Plant to enable recovery of at least 75% of zinc from ore to a concentrate containing at least 52% of zinc, and recovery of 50% of lead to a concentrate containing at least 43% of lead. The silica content is also expected to significantly fall from the current 15% to 11%. See "*Annex C — Competent Persons' Report — 8. Cash Flow and Valuation — Valuation of Shalkiya Mining Complex*".

On the basis of detailed test work, Outokumpu has examined several concepts for optimising zinc metal recovery and concentrate production through the New Processing Plant and anticipates that there would be an opportunity for up to approximately 60% by weight of future concentrate to be recovered into a fine fraction with a high grade concentrate containing 56% of zinc and 5% of silica, and the rest into a coarser low grade concentrate with 46% of zinc and 20% of silica. The higher grade concentrate will be a product marketable to the majority of smelters, while the lower grade concentrate could be re-processed in-house or continue to be sold to the Company's traditional off-takers that are technically equipped to process it.

The Company intends to invest US \$130 million in this project, of which US \$87 million is expected to be used for the construction of the New Processing Plant and the rest for mine expansion at the Shalkiya Mine. Following commencement of production at the New Processing Plant, the Company intends to cease using the Kentau Plant.

The Company expects this investment to result in significant savings, including both in operating costs, primarily in the form of estimated savings of approximately US \$4.50 per tonne of ore with respect to costs of ore transportation from the Shalkiya Mine to the Kentau Plant, as well as savings expected to be achieved following the termination of the aged Kentau Plant in respect of the comparatively higher maintenance and capital expenditures currently required for its maintenance.

For more information on the construction of the New Processing Plant, see "*Annex C — Competent Persons' Report — 5. Shalkiya Ore Processing — New 3mtpy Concentrator at Shalkiya*".

The Talap Deposit

The Talap Deposit is located 30 km south-west of the Shalkiya Mine. Following an auction in 2004, the Company's then 95% owned subsidiary, Geoinforminvest, was awarded the Talap Contract, granting the exclusive right to carry out exploration and mining at the Talap Deposit for a period of 20 years. Upon Geoinforminvest's merger with and into the Company, the Company succeeded to Geoinforminvest's rights and obligations under the Talap Contract by novation. For more information regarding the Talap Contract see "*— The Subsoil Use Contracts — The Talap Contract*".

In 1992, the SCR approved Balance Reserves of 17.0 million tonnes of ore of C₁ category and 8 million tonnes of ore of C₂ category. According to the Minutes No. 524-06-y dated 29 August 2006 of the SCR for the Talap Deposit, the Talap Deposit contains ore Reserves of 11.1 million tonnes containing 523 thousand tonnes of zinc and 262 thousand tonnes of lead.

In September 2006, the Company completed its exploration programme of the Talap Deposit in accordance with the requirements of the Talap Contract, the relevant Reserves were approved by the SCR and is now in the

process of designing the development programme for mining operations. The table below provides Reserve data as approved by the SCR in September 2006:

	Reserve Category	Ore	Contained Metal		Ore Grade	
			Lead	Zinc	Lead	Zinc
			(tonnes, thousands)		(%)	
Balance Reserves	C ₁	7,557	185.9	361.3	2.46%	4.78%
	C ₂	3,583	76.3	163.2	2.13%	4.55%
	Total	11,140	262.2	524.5	2.35%	4.71%
Off Balance Reserves		5,329	49	113	0.92%	2.14%

The Ogizmuiz Deposit

The Company's wholly-owned subsidiary, Shalkiya Crushed Stone Plant LLP, is party to a contract with the Department of Entrepreneurship and Industry of the Kyzylorda Region for the extraction of dolomite at the Ogizmuiz Deposit, which is located 5 km from the Shalkya Mine. The term of this contract expires in 2024. With 14 million tonnes of dolomite Reserves in the A+B+C₁ categories, the deposit is exploited by open-pit mining. Crushed stone is produced by the Company's plant, which has a capacity of 1.0 million tonnes of ore per annum.

The plant started operations in March 2006 and by July 2006 had processed 45 thousand tonnes of dolomite. Management regards the Ogizmuiz Deposit as a non-core operation and may consider disposing of this business.

Products and Sales

Zinc concentrate

Customers. The Company sells zinc concentrate to the Almalyk Smelter and other customers at floating prices directly linked to zinc metal prices quoted on the LME and adjusted for a number of factors, mainly transportation costs, costs of metallurgical treatment (treatment charges), processing of concentrate and losses of zinc or lead during such processing, the grade of zinc or lead concentrate sold (i.e., the percentage of metal contained in the concentrate) and the level of concentration of non-metallic substances in the concentrate, such as moisture content and silica.

Since March 2004, the Company has sold the majority of its output of zinc concentrate to the Almalyk Smelter, located 350 km from the Kentau Plant. The Almalyk Smelter has an annual processing capacity of 200 thousand tonnes of zinc concentrate and currently operates below capacity due to insufficient concentrate supplies. The Company has chosen to sell the majority of its output to the Almalyk Smelter due to relatively lower transportation costs, lower treatment charges and other attractive commercial terms under the off-taking agreement, including a six-month pre-payment. Sales to the Almalyk Smelter are governed by a supply contract between the Company and Cheriton Finance Limited, a UK based trader. The contract was entered into on 21 February 2006 and, as amended, remains in effect until 31 December 2008.

In the year 2004, the Company also sold zinc concentrate to a number of other customers in addition to the Almalyk Smelter, although the Almalyk Smelter purchased the majority of its product. The table below provides a breakdown of the Company's sales of zinc concentrate by customer.

Customer	Sales of zinc concentrate		
	Year		Six months ended
	2004	2005	30 June 2006
	(tonnes, thousands)		
Cheriton Finance Limited (Almalyk Smelter)	7,704	17,944	8,815
Ta Cheng International Boundary Trade Center	1,500	—	—
Total	9,204	17,944	8,815

Potential customers. Potential customers currently equipped to process the Company's concentrate include the KazakhMys Zinc Smelter located near the town of Balkhash, 1,201 km from the Kentau Plant; KazZinc, a Kazakhstan metals company; five zinc smelters in the neighbouring North-Western Region of China; and 17 other zinc smelters in the Southern and South-Eastern Regions of China.

The Chelyabinsk Smelter in Russia (the "**Chelyabinsk Smelter**") is another major potential off-taker of zinc concentrate produced by the Company. Although at present the Chelyabinsk Smelter is not equipped to process zinc concentrate produced by the Company, Management understands that it is currently in the process of

upgrading its equipment, which will allow it to process zinc concentrate produced by the Company by 2007. Management also believes that the Chelyabinsk Smelter has capacity to process up to 400 thousand tonnes of zinc concentrate annually and currently meets only one-quarter of its requirements in raw material from its own production.

Lead concentrate

Customers. At present, the Company sells its entire output of lead concentrate to two traders based in China: Bozhou Alashankou Sheng Kun Co., Ltd. and Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co., Ltd. The Company has been selling lead concentrate at prices linked to lead metal prices quoted on the LME.

The Company supplies lead concentrate to Bozhou Alashankou Sheng Kun Co., Ltd. pursuant to a lead concentrate supply contract dated 20 October 2005, as amended. This contract remains in effect until 31 December 2006.

The Company supplies lead concentrate to Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co., Ltd. pursuant to a lead concentrate supply contract dated 17 February 2006, as amended. This contract remains in effect until the complete fulfilment of the mutual obligations thereunder, provided that the last delivery of lead concentrate must be made no later than 31 December 2006.

The following table sets out the breakdown of sales of lead concentrate by customer in 2004, 2005 and the six months ended 30 June 2005 and 2006:

<u>Customer</u>	<u>Sales of lead concentrate</u>		
	<u>Year</u>		<u>Six months ended</u>
	<u>2004</u>	<u>2005</u>	<u>30 June 2006</u>
	(tonnes, thousands)		
North Xinjiang Railway Industrial Development General Corp.	1,341	—	—
Bozhou Alashankou Hengder Trade Co., Ltd.	1,087	3,613	—
Bozhou Alashankou Sheng Kun Co., Ltd.	—	1,047	—
JSC Yuzhpolimetall	—	1,559	—
Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co., Ltd.	—	—	2,901
Total	<u>2,428</u>	<u>6,219</u>	<u>2,901</u>

The Company's potential off-takers of lead concentrate include a number of smelters, such as JSC Yuzhpolimetall and KazZinc in Kazakhstan, ElectroZinc in Russia and five smelters in the North-Western Regions of China.

Competition

While the Company does not currently experience competition for its sales, as zinc and lead are commodities it does encounter competition in identifying and acquiring exploration and development rights for mineral deposits in Kazakhstan and the region. For an overview of other industry players in Kazakhstan and the region, see "Industry Overview".

Hedging

The Company sells its zinc and lead concentrates at spot-linked prices and currently does not enter into forward contracts, derivative or other hedging arrangements to establish a price in advance for the sale of its future zinc or lead concentrates. In general, hedging in this manner reduces the risk of exposure to volatility in the zinc and lead prices. As the Company does not currently hedge the prices of its products, it can realise the positive impact of any increase in zinc and lead prices. However, this also means that the Company is not protected against decreases in zinc or lead prices. The Company reviews and will continue to review its hedging strategy at regular intervals.

Transportation

Transportation costs relate to the cost of transportation of zinc-lead ore from the Shalkiya Mine to the Kentau Plant and of zinc and lead concentrates to customers.

Transportation of zinc-lead ore from the Shalkiya Mine to the Kentau Plant

Zinc-lead ore is transported for processing from the Shalkiya Mine to the Kentau Plant by railway through (i) a 27 km branch line owned and maintained by the Company and connecting the Shalkiya Mine with the main railway line in Zhanakorgan; (ii) then through the main railway line of the Kazakhstan national railway system over a distance of 92 km; and (iii) further through a 44 km branch line which connects the main railway line from the Borisovka railway station with the Kentau Plant and is owned and maintained by JSC Yuzhpolimetall.

Transportation costs of delivering the ore from the Shalkiya Mine to the Kentau Plant constituted 12.7% and 13.6% of the Company's costs of sales for the six months ended 30 June 2006 and the year ended 31 December 2005, respectively, and amounted to KZT 555 and KZT 494 per tonne of ore processed, respectively (US \$4.4 and US \$3.7 per tonne). The construction of the New Processing Plant at the Shalkiya Mine is expected to significantly reduce this cost item, as the processing facilities will be located at the same site as the mine.

Transportation of zinc and lead concentrates to customers

The Company currently supplies the majority of its entire output of zinc concentrate to the Almalıy Smelter, and exports its entire output of lead concentrate to China. The Company incurs costs for transportation of concentrate from its Kentau Plant to its customers.

The Company's concentrate is transported solely by railway via a 44 km branch line owned and maintained by JSC Yuzhpolimetall and connecting the Kentau Plant to the railway station Borisovka on the main railway line of the Kazakhstan national railway system and, where production is further transported within Kazakhstan or into Uzbekistan or China, along the Chinese national railway system.

The Kazakhstan national railway system is operated by Temir Zholy ("**Temir Zholy**"), the state-owned national railway operator. Tariffs for rail transportation are set semi-annually by Temir Zholy, upon approval by the Agency on Regulation of Natural Monopolies.

All of the locomotives and rail cars used by the Company are provided at the set railway charges by Temir Zholy.

Suppliers

The principal supplies required by the Company for its operations are electricity and consumables such as explosives, drilling bits, fuels and lubricants.

The table below sets out the Company's largest suppliers in 2005, the type of products supplied, their location and the percentage of the Company's total purchases:

<u>Supplier</u>	<u>Type of Product/Services</u>	<u>Location of Supplier</u>
KEGOC.....	Electricity	Astana
Energopotok	Electricity	Shymkent
Energotrade	Electricity	Almaty
Kasting	Mill balls for the Kentau Plant	Almaty
Migorest	Mill liners and crusher liners for the Kentau Plant	Zhezkazgan
Verteks	Explosive materials	Almaty
Temir Zholy	Railway transportation services	Astana
JSC Yuzhpolimetall	Railway transportation services	Kentau

Electricity

Mining and processing of zinc-lead ores requires significant amounts of electrical power. In Kazakhstan, most electrical power is generated by coal-fired power stations in the Karaganda region, in north eastern Kazakhstan.

Electrical power is currently supplied to the Shalkiya Mine via a temporary 35/6 kV main substation with two transformers, each of a capacity of 10 MW. It is provided to the Company by a regional electricity supplier and it is sourced from the Kazakhstan wholesale power market, primarily from traders under short-term contracts at KZT 4.02 (US \$0.03) per kilowatt hour for the Shalkiya Mine and KZT 5.04 (US \$0.04) per kilowatt hour for the Kentau Plant.

A 220/10/6 kV main substation with two 40mW transformers is already installed at the site of the Shalkiya Mine for purposes of expanding operations. The complete set of electrical equipment for the 220/10/6 kV substation remains available for operation. The transformers can be connected to the main grid of the state-owned national

company Kazakhstan Electricity Grid Operating Company (KEGOC) by two separate existing power lines, each with a length of 11 kilometres. The two 40 MW transformers are expected to be commissioned and connected to the main grid following installation of carrier-current communication.

The commissioning of the 220/10/6 kV main substation will enable the Company to access the wholesale power market directly, allowing the Company to purchase electric power directly from electric power producers. The Company expects this to result in a significant reduction in its current cost of electrical power by excluding intermediary regional electricity traders.

The power required for the Shalkiya Mine at various operating rates is estimated as follows:

- 1.5 MW per hour for 0.5 mtpa mining output;
- 3.75 MW per hour for 1.5 mtpa mining output; and
- 11 MW per hour for 3.0 mtpa mining output.

The Company estimates that the total consumption of the Shalkiya Mine, including the New Processing Plant and related infrastructure, will be up to 30 MW. The existing infrastructure is, therefore, expected to be capable of providing adequate electrical power supply for the Shalkiya Mine and the New Processing Plant, including their related infrastructure.

Research and development

The Company conducts geological exploration through an internal geological department located at the Shalkiya Mine and through Izdenis, a geological subcontractor. The Company analyses lead-zinc ore samples at an in-house laboratory.

Employees

The following table sets out information on the number of people employed by the Company as at 31 December 2003, 2004 and 2005, and 30 June 2006, by employment facility:

	31 December			30 June
	2003	2004	2005	2006
Company Headquarters	31	32	25	29
Shalkiya Mine	315	491	476	411
Kentau Plant	89	480	307	278
Total	435	903	808	718

At the end of 2005, the Company began outsourcing non-production activities including maintenance, security, construction and railway services, as a result of which the number of its full-time employees decreased by 185.

Employee compensation and benefits

The Company pays a base salary to employees and a bonus of up to 20% of the base salary. The bonus amount depends on the employee's productivity.

The current minimum wage in Kazakhstan, as established by the "Law on Republican Budget for 2006", is KZT 9,200 (US \$69) per month. This law requires that employees, who work overtime, on night shifts or on holidays, be remunerated at least at the rate of between 150% and 200% of their average monthly salary. Employers are required to pay employees at least 50% of their average monthly salary for any downtime not caused by the employee's fault.

As required by the Shalkiya Contract, the Company is obliged to spend 0.1% of its annual production costs on training and development of Kazakhstan nationals, who may or may not be employees of the Company.

The Company is required by law to pay 10% of the aggregate amount of salaries paid to employees, to the pension system of Kazakhstan. The Company does not maintain a private pension plan for employees and does not provide employees with private medical or unemployment insurance.

Employment contracts

Under Kazakhstan law, individual employment contracts may be either for an indefinite term, or for a fixed term of at least than a calendar year. If an employment relationship continues following the expiry of a fixed contract

term, the employment relationship is deemed to be for an indefinite term. As a general rule, the Company's employment contracts are for fixed terms.

Trade unions

As at the date of this prospectus, none of the Company's employees was a member of a trade union. However, as a matter of Kazakhstan law, any employee in the Company is entitled to become a member of a trade union.

Trade unions in Kazakhstan are regulated by Law "On Trade Unions" of 1993, as amended in 1995. As part of their activities, trade unions may monitor employers' compliance with their statutory obligations to their workers and have unrestricted access to the work places of their members and to relevant information in their employers' possession. In the event of a breach of statutory obligations by an employer, a trade union may bring a claim against the employer in court or appeal to the prosecutor's office. Trade union members are entitled under Kazakhstan law to participate in meetings, strikes and other actions aimed at improving working conditions and increasing salaries or for other lawful reasons. If a company employs members of a trade union, the company may not self-liquidate or liquidate its structural subdivisions, change its form of ownership (state or private) or suspend production fully or in part, if such events lead to redundancies or a worsening of labour conditions, without two-months' prior notice to the trade unions and only after holding follow-up negotiations to protect the rights and interests of employees. Trade union members also have certain rights with respect to the termination of individual employment contracts.

Collective agreements

As at the date of this prospectus, the Company has no collective agreements with its employees. In Kazakhstan, such agreements are regulated by Law "On Collective Agreements" dated 1992, which provides that trade unions are entitled to require that a company where its members are employed enter into a collective agreement with its employees. Such collective agreements should set forth the employer's obligations in relation to social, economic and labour rights of the employees and their families, and the duties of the employees in respect of the rights and interests of the employer.

The Subsoil Use Contracts

The Company conducts its extraction operations in the Shalkiya Mine and its exploration and extraction operations in the Talap Deposit pursuant to the Subsoil Use Contracts concluded with the MEMR: Contract No 935 for extraction of polymetallic ores from the Shalkiya Mine (the Shalkiya Contract) and Contract No 1617 for mining of polymetallic ores from the Talap Deposit (the Talap Contract), respectively. For general information on the regulation of subsoil use contracts in Kazakhstan see "*Regulation — Regulation of mineral rights in Kazakhstan — Legal framework for grant of subsoil use rights by the State*").

The Shalkiya Contract

The Shalkiya Contract became effective on 21 May 2002. The contract was amended on 26 July 2004 in connection with the renaming of the Company and certain changes to the relevant working programme.

The Shalkiya Contract, as amended, sets out the Company's rights and obligations with respect to mining at the Shalkiya Deposit. The contract has a term of 45 years expiring on 21 May 2047, which can be extended by written agreement between the parties in accordance with Kazakhstan law. In case of an extension of term, pursuant to the contract, the terms and conditions of the extended contract will be subject to change.

Bonus payments

The Shalkiya Contract stipulates that the Company is required to make certain payments to the Government, including payment of the subscription bonus, commercial discovery bonus and royalties, special payment for subsoil use and payment for use of information, as well as corporate income tax, value added tax, excess profit tax and other taxes.

Subscription bonus: The Company was required to make a single fixed payment of US \$10 thousand as a subscription bonus for the right to carry out subsoil operations permitted under the contract within 30 days from its effective date.

Commercial discovery bonus: The Company is required to make a fixed payment of 0.1% of the value of newly approved Mining Reserves as a commercial discovery bonus upon each commercial discovery within 30 days from the date of such discovery within the area covered by the terms of the contract.

Royalty payments

The Shalkiya Contract requires the Company to make monthly royalty payments equal to 0.62% of the cost of zinc and lead metals in mined ore, excluding indirect taxes and transportation costs.

Taxation payments

The contract specifies the levels of corporate income tax, value added tax, excise duties, social tax, land tax, vehicle tax, property tax, fees on auction sales, fees for state registration of legal entities, fees for the right to conduct certain types of activities, customs payments and certain other mandatory payments payable by the Company. For example, the corporate income tax and value added tax rates established in the Shalkiya Contract are at 30% and 16% respectively. See also “— *Taxation of the Company in Kazakhstan*”.

The Company may in the future be liable to pay an “excess profit tax” in accordance with the Tax Code at then applicable rates calculated as a percentage of any amount in excess of 20% of the Company’s net income received under the Shalkiya Contract, depending on its then realised internal rate of return. The following table sets out the current “excess profit tax” rates by means of example:

<u>Internal Rate of Return</u>	<u>Rate of Excess Profit Tax as a Percentage of the Net Income for Reporting Period</u>
Less or equal to 20	0
Over 20, but less or equal to 22	4
Over 22, but less or equal to 24	8
Over 24, but less or equal to 26	12
Over 26, but less or equal to 28	18
Over 28, but less or equal to 30	24
Over 30	30

Taxation and general stability

Under the Shalkiya Contract, the Government has stipulated that the taxation rates payable by the Company, as specified in the contract, will remain fixed for the duration of the contract, except for such changes, which may be agreed by both parties and which do not change the initially established balance of economic interests of the State and the Company under the contract. In addition, to the extent new legislation makes it impossible to carry out the activities envisaged under the contract, the relevant regulatory authorities and/or the Company are obliged to negotiate amendments to the contract to restore the initially established balance of each party under the contract.

Social and regional development obligations

As is common with subsoil use contracts between subsoil users and national governments, the Company has undertaken certain social obligations for the benefit of its employees and their dependants. These social obligations include: (i) investing annually at least 0.1% of the Company’s annual operating costs in professional training programmes for its Kazakhstan employees; and (ii) providing financing for the development of the social infrastructure of the territory agreed with regional authorities.

In addition, the Company has undertaken to purchase goods and services from Kazakhstan businesses, whenever possible, provided that such goods and services meet the standards and requirements of auction rules in Kazakhstan.

Environmental obligations

The Company is obliged to comply with Kazakhstan environmental, health and safety standards and requirements. Under the Shalkiya Contract, in conducting its business, the Company is required to give priority to environmental considerations, including, among others, monitoring the impact of its operations on the environment, limiting desertification and soil erosion and preventing the pollution or exhaustion of subsoil water. Prior to commencing operations under the contract, the Company was required to obtain the approval of the relevant environmental authorities. Upon closure of the mine, the Company is required to conduct an environmental rehabilitation of the contract area to ensure that damage to the environment is repaired and that the contract area is suitable for future use. In particular, under the Shalkiya Contract, the Company is required to establish and maintain liquidation fund for rehabilitation of its sites, into which it is required to annually deposit 1% of its annual operating expenditures.

Dispute resolution

To the extent that there are any disputes that cannot be resolved through negotiations between the parties within 60 days, the Shalkiya Contract stipulates that these are to be submitted to the Arbitration Commission at the Chamber of Commerce and Industry of Kazakhstan.

Approved mining programme

The Company undertakes to comply with a detailed mining programme attached to the contract. This programme must be agreed with the State Committee for Geology and Subsoil Use.

In addition, the Company must annually agree with Yuzhkaznedra, the regional department of the MEMR, an annual working programme, as well as submit an annual implementation report.

The Talap Contract

The Talap Contract became effective on 7 December 2004 and was initially entered by Geoinforminvest, which at the time of execution of the contract was a 95% subsidiary of the Company and was subsequently merged with the Company in October, 2006. Pursuant to this merger, the Company became party to the Talap Contract by novation of the rights and obligations thereunder. The Talap Contract sets out the rights and obligations of the Company (formerly of Geoinforminvest), with respect to the exploration and extraction at the Talap Deposit. The contract has a term of 20 years, including two years for exploration and 18 years for extraction. The term of the contract can be extended by written agreement between the parties in accordance with Kazakhstan law. In case of a term extension, pursuant to the contract, the terms and conditions of the extended contract will be subject to change.

Bonus payments

The Talap Contract provides that the Company is required to make certain payments to the government, including payment of the subscription bonus, commercial discovery bonus and royalties, special payment for subsoil use and payment for use of information, as well as corporate income tax, value added tax, excess profit tax and other taxes.

Subscription bonus: Geoinforminvest was required to make a single fixed payment of US \$50 thousand as a subscription bonus for the right to carry out subsoil operations permitted under the contract within 30 days from its effective date.

Commercial discovery bonus: The Company is required to make a fixed payment of 0.1% of the value of newly approved Mining Reserves as a commercial discovery bonus upon each commercial discovery within 90 days from the date of such discovery within the area covered by the terms of the contract.

Royalty payments

The Talap Contract requires the Company make monthly royalty payments in the amount of 2.5% of the cost of zinc and lead metals in mined ores, excluding indirect taxes and transportation costs.

Taxation payments

The Talap Contract requires the Company pay corporate income tax, value added tax, customs payments and other mandatory payments in accordance with the applicable Kazakhstan tax law in force. See also “— *Taxation of the Company in Kazakhstan*”.

The Company may in the future be liable to pay an “excess profit tax” in accordance with the Tax Code at then applicable rates calculated as a percentage of the amount in excess of 20% of the Company’s net income from the Talap Contract to deductions. The following table sets out the current “excess profit tax” rates by means of example:

<u>Amount exceeding 20% of net income to deductions</u>	<u>Rate of Excess Profit Tax</u>
Less than 5%	15%
5% to 15%	30%
15% to 30%	45%
Over 30%	60%

General stability

Under the Talap Contract, the Government guarantees that the position of the Company under the contract must be not affected by any changes in the Kazakhstan law that may worsen such position, provided that such guarantee will not extend to changes in the areas of the Kazakhstan law relating to defence, national security, environmental security and health. To the extent that a change in the Kazakhstan law makes it impossible to carry out the activities envisaged under the contract, the parties must agree in writing such amendments to the contract that would restore the initially established balance of each party under the contract.

Social and regional development obligations

As is common with subsoil contracts between subsoil users and national governments, the Company undertakes certain social obligations for the benefit of its employees and their dependants. These social obligations include: (i) investing at least 1% of the Company's exploration costs during the exploration period; and (ii) at least 1% of the Company's operating costs during the extraction period, relating to professional training programmes for its Kazakhstan employees, provided that the amount so invested must not be less than US \$547 thousand. The total amount of its investment for the development of the social infrastructure for the term of the contract must constitute no less than US \$500 thousand.

In addition, the Talap Contract requires the Company purchase goods and services from Kazakhstan businesses, whenever possible, provided that such goods and services meet the standards and requirements of auction rules in Kazakhstan.

Environmental obligations

The Company is obliged to comply with Kazakhstan environmental, health and safety standards and requirements. Under the Talap Contract, in conducting its business, the Company is required to give priority to environmental considerations, including, among others, monitoring the impact of its operations on the environment, limiting desertification and soil erosion and preventing the pollution or exhaustion of subsoil water. Prior to commencing operations under the contract, the Company fulfilled the requirement to obtain the approval of the relevant environmental authorities. Upon closure of the operations, the Company has an obligation to make reclamation of the contract area to ensure that damage to the environment is repaired. In particular, under the Talap Contract, the Company is required to establish and maintain liquidation fund for rehabilitation of its sites, into which it is required to annually deposit 1% of its annual operating expenditures.

Dispute resolution

To the extent that there are any disputes that cannot be resolved through negotiations between the parties within 60 days, the Talap Contract provides that these are to be submitted to the Arbitration Commission at the Chamber of Commerce and Industry of Kazakhstan rather than to an independent international arbitration authority.

Approved mining programme

The Company undertakes to comply with a detailed mining programme, which is an integral part of the Talap Contract. This programme must be agreed with the MEMR. In addition, the Company must annually agree with Yuzhkaznedra, the regional regulatory authority, an annual working programme, as well as submit an annual implementation report.

The Ogizmuiz contract

Exploration at Ogizmuiz was completed in 2005, in accordance with the Minutes No. 878 dated 23 June 2005 of Yuzhkaznedra. Currently extraction is performed at the Ogizmuiz deposit under the Subsoil Use Contract for extraction of dolomites No. 22 dated 30 December 2005 with the Department of Entrepreneurship and Industry of the Kyzylorda Region. This contract is valid until 2024.

Health and safety

Due to the nature of the Company's business, much of its activity is conducted at its mining facilities by large numbers of workers, and workplace safety issues are of significant importance to the operation of these facilities. Health and safety practices in Kazakhstan are regulated by Law No. 493-I "On Labour in Kazakhstan" dated 10 December 1999, Law No. 314-II "On Industrial Safety at Hazardous Industrial Facilities" dated 3 April 2002, Law No. 430-II "On the Public Health System" dated 4 July 2003 and Law No. 528-II "On Industrial Safety and Labour Protection" dated 28 February 2004. Various governmental authorities have authority in the field of

health and safety matters, including the Ministry of Labour and Social Protection of the Population, the Ministry of Emergency Situations and the Committee for State Sanitary and Epidemiologic Supervision of the Ministry of Public Health. See also “*Regulation — Safety, health and environment*”.

The Company has established a Health, Safety and Environment Committee, which assists Management in formulating the Company’s health, safety and environment policies. In addition, in order to monitor compliance with health and safety regulations and deal with health and safety issues, the Company has established a dedicated department with responsibility for ensuring the safety of the workforce and maintenance of industrial hygiene standards and compliance with environmental requirements. This department includes an industrial hygiene specialist and an environmental engineer. The department is currently developing an occupational health and safety management system that will be expected to comply with the requirements of the international OHSAS 18101 standard.

Since the commencement of its operations in March 2004, the Company has experienced two fatalities due to non-compliance of safety regulations of these employees. For more information on the Company’s record for serious injuries and fatalities at its operations, see “*Annex C — Competent Persons’ Report — 7. Shalkiya Environment, Health and Safety — Safety Management*”.

Safety training programmes. The Company carries out its business in accordance with the laws and regulations of Kazakhstan relating to health and safety procedures. In particular, the Company has adopted detailed guidelines on safety procedures for its deposits. The Company applies the following safety measures at its facilities:

- use of safety warning signs;
- use of coloured markings on process and communication lines;
- provision of personnel training on safety measures and procedures;
- provision of personnel with special clothes, footwear and other means of individual protection;
- carrying out of preventive medical examinations of personnel prior to the beginning of employment and thereafter twice a year, including monthly medical examinations at each shift for certain personnel;
- carrying out of inspection of machines and equipment involving various governmental authorities;
- installation of various automation devices, warning and emergency signalling devices in arrears involving emission of harmful substances and high level of noise and vibration;
- preparation and implementation of plan of measures on personnel safety and protections methods; and
- carrying out of analyses and filing of all accidents, professional diseases, injuries and breakdowns.

The Company’s management structure includes a personnel protection and safety measures division working jointly with the Company’s other departments and relevant governmental authorities. This division consists of the head, two engineers on safety measures and an engineer-ecologist.

Working time. Kazakhstan employment laws set the normal duration of a working week at 40 hours, with overtime not exceeding 4 hours per week. In the case of employees engaged in heavy physical work or work under harmful or dangerous conditions (which applies to 63% of the Company’s employees), a working week is reduced to a maximum of 36 hours, with overtime not exceeding 2 hours per week. Under Kazakhstan law, employees are generally entitled to no less than 18 days paid leave annually.

Environment

The Company is subject to laws, regulations and other requirements relating to the protection of the environment in Kazakhstan, including the discharge of substances into the air and water, the management of disposal of waste and rehabilitation of mine sites upon mine closure. Issues of environmental protection in Kazakhstan are regulated primarily by Law No. 160-I “On Environmental Protection” dated 15 July 1997. In addition, the Company has given undertakings to the Government to comply with all applicable Kazakhstan and internationally accepted environmental and health and safety standards and requirements in the Shalkiya contract and the Talap Contract. Environmental protection is regulated by the Ministry of Environmental Protection, the Committee for State Sanitary and Epidemiologic Supervision of the Ministry of Public Health and the Ministry of Emergency Situations. For more information regarding environmental regulation in Kazakhstan, see “*Regulation — MEMR and other regulatory authorities*” and “*Regulation — Safety, health and environment*”.

The Ministry of Environmental Protection has the authority to issue annual natural use permits for use of natural resources in relation to the exploitation of natural resources in Kazakhstan. The Company was granted the latest permit for the Shalkiya Mine on 19 April 2006, and the Kentau Plant on 11 April 2006. Renewal is subject to submission of an annual environmental report. Under Kazakhstan law, the Company may be also required to obtain a number of other certificates, permits and licences from various governmental ministries, departments and agencies in relation to the use of potentially toxic chemicals, transportation of hazardous materials, import of sodium cyanide and explosive materials for blasting, as well as water usage.

Law No. 160-I “On Environmental Protection” establishes a “pay to pollute” regime administered by national and local authorities. The Ministry of Environmental Protection has established standards relating to the permissible impact on the environment and, in particular, emissions and disposals of substances, waste disposal and resource extraction. The Company may obtain approval for exceeding these statutory limits from environmental authorities depending on the type and scale of the environmental impact. As a condition of such approval, a plan for the reduction of the emissions or disposals must be developed by the Company and cleared with the relevant authority. The local representative authorities (Maslikhats) annually establish rates of environmental fees. Fees are assessed on a sliding scale for both statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits — the lowest fees are imposed for pollution within statutory limits, intermediate fees are imposed for pollution within individually approved limits and the highest fees are imposed for pollution exceeding such limits. Payment of such fees does not relieve the Company from its responsibility to take environmental protection measures and undertake rehabilitation activities for the mine site upon mine closure.

Management believes that except as disclosed below, since its establishment in 2001, the Company has at all times complied with the environmental regulations, and there have been no investigations or actions taken against the Company in relation to environmental matters. The Company maintains an environmental policy and provides environmental training to its employees. As required by Kazakhstan laws, on the annual basis the Company develops and submits its environment protection plans to the relevant environmental authorities for approval. As required by Kazakhstan laws, the Company maintains a so called ‘liquidation fund’ into which the Company is obliged to pay 1.0% of its annual production costs, for the purpose of funding a decommissioning of the Company’s mine and rehabilitation of the environment upon expiry of the relevant Subsoil Use Contract.

On one occasion in October 2005, the Company failed to ensure that JSC Yuzhpolimetall, a company which uses the Company’s pumping facilities at the Kentau Plant, did not discharge waste water while the pumping station and an emergency spillage pond were under maintenance. Fifty cubic meters of waste water were released to a river on that occasion, which lead to death of cattle on a nearby farm. The court upheld a KZT 180 thousand damages claim by the local environmental authority holding the Company and JSC Yuzhpolimetall jointly and severally liable (50% each). The Company has complied with the judgment and has improved procedures for operating its emergency spillage ponds.

Insurance

Under Law “On Obligatory Insurance of Civil Liabilities of Owners of Facilities, the Activities of which are Associated with a Risk of Causing Damage to Third Parties” dated 7 July 2004, the Company is required to maintain insurance for its facilities and activities, which are associated with the risk of causing damage to third parties. The Company has effected an insurance policies for the liability of the Company to third parties, which covers risks as required under the Shalkiya Contract, the Talap Contract and applicable Kazakhstan legislation. The aggregate limit on this insurance policy is KZT 72.1 million for all events of loss covered under this policy.

Since 1 July 2005, pursuant to Law “On Labour Safety” dated 28 February 2004 and Law “On Obligatory Insurance of Civil Liability of Employer for Injury to Employee at Workplace” dated 7 February 2005, every employer is obliged to maintain employer’s liability insurance for accidents and employment related injuries and illnesses. In compliance with this law, the Company has obtained an insurance policy dated August 12, 2006 covering employment related damage to life and health of all of the Company’s employees up to the total limit of KZT 303 million. Law “On Protection of Environment” dated 15 July 1997 and Law “On Obligatory Environmental Insurance” dated 1 January 2006 also require the Company maintain insurance as it engages in environmentally hazardous activities. The Company has obtained obligatory environmental insurance in respect of risk of civil liability for damage inflicted on the environment as a result of accidental pollution from production activity. This insurance policy is valid until 18 May 2007 and has a limit of KZT 17 million for all events of loss.

In addition, the terms of the Company's subsoil use contracts provide that the Company should obtain and maintain insurance coverage for:

- damage to property in connection with transportation and storage of cargo at its place of operations;
- damage to property, including leased property, used in the operation of its business;
- risks associated with environmental contamination, including environmental clean-up costs;
- general civil liability against third parties, which includes employer's liability to its employees and liability of owners of facilities of extreme danger; and
- third party damage.

On 24 July 2006 the Company entered into voluntary insurance contracts in respect of its key assets with the aggregate limit of KZT 133 million for all events of loss covered thereunder. Each of these insurance policies relates to a particular subsoil use contract and covers all of the Company's assets and properties involved in operations under such contract.

Property

The material assets owned or leased by the Group are as follows:

<u>Description</u>	<u>Location</u>	<u>Tenure</u>	<u>Building/site use area (sqm)</u>
Mining allotment (leased)	Shalkiya Mine	45 years	6,700
Main site of the mine	Shalkiya Mine	unlimited	69,500
Site of the output shaft	Shalkiya Mine	unlimited	4,350
Explosives warehouse	Shalkiya Mine	unlimited	2,760
Treatment facilities	Shalkiya Mine	unlimited	6,920
Land plot	Kentau Plant	unlimited	15,528.5
Main building (Grinding compartment)	Kentau Plant	unlimited	6,336
Flotation compartment	Kentau Plant	unlimited	7,722
Crushing compartment	Kentau Plant	unlimited	3,460
Head office (leased)	Almaty	until April 2007	434

All of the assets listed above have been pledged for the benefit of Bank TuranAlem as security under the Company's loans with Bank TuranAlem, see "*Operating and Financial Review and Results of Operations of the Company — Liquidity and Capital Resources — Capital resources*".

The Group's use of its material assets referred to in paragraph 7.1 above is subject to restrictions and limits under Kazakhstan law. See "*Business Description — The Company's subsoil use contracts*" and "*Regulation — Safety, health and environment*".

Legal proceedings

Neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this prospectus which may have, or have had a significant effect on the financial position or profitability of the Group.

Intellectual property

The Company does not currently own any registered intellectual property rights material to its business.

Taxation of the Company in Kazakhstan

Corporate income tax

The Company is in principle subject to corporate income tax at a rate of 30% (subject to certain exceptions) in Kazakhstan with respect to profits from its activities, provided that the Company's profits from its activities at the Shalkiya Mine are, and its future activities at the Talap Deposit will also be, subject to additional excess profit tax applicable under the Company's respective Subsoil Use Contracts. See "*— The Subsoil Use Contracts — The Shalkiya Contract — Taxation payments*" and "*— The Talap Contract — Taxation payments*".

Other taxes

The Company is also subject to social tax paid on a regressive scale, value added tax on goods and services (VAT) at a rate of 15% (on goods and services related to the Company's activities at the Shalkiya Mine at a rate of 16%), property tax for legal entities at a rate of 1% of the annual average value of its fixed and intangible assets. In addition, there are a number of less significant taxes.

Dividend taxes

Dividends payable by the Company are subject to a 15% withholding, subject to reduction under applicable double taxation treaties. Under the Kazakhstan/Netherlands Double Taxation Treaty, the effective withholding tax rate on dividends with respect to shares beneficially owned by the Issuer is reduced to 5%).

In addition to the generally applicable taxes described above, there are a range of special taxes, bonuses and royalties payable by legal entities involved in exploration and extraction of mineral resources. For information on the taxes, bonuses and royalties payable by the Group see "*Regulation — Regulation of subsoil use rights*" and "*— The Subsoil Use Contracts.*"

CAPITALISATION AND INDEBTEDNESS OF THE COMPANY

The following table sets forth the Company's unaudited consolidated capitalisation and indebtedness on a historical basis. You should read this table in conjunction with the Company's Annual Financial Statements as at, and for the three years ended, 31 December 2005 and its Interim Financial Statements as at, and for the six-month periods ended, 30 June 2005 and 2006 and the notes thereto, which are included elsewhere in this prospectus.

	As at 30 June 2006	
	(KZT, million)	(US\$, thousands) ⁽¹⁾ (unaudited)
Cash and cash equivalents	73.6	620.1
Other financial current assets	4,253.9	35,840.4
Short-term portion of long-term borrowings	4,242.1	35,741.0
Long-term borrowings	6,061.2	51,067.5
Total borrowings	10,303.3	86,808.5
Share capital	0.1	0.8
Accumulated deficit	(2,996.7)	(25,248.1)
Minority interest	2.3	19.4
Total shareholders' equity	(2,994.3)	(25,228.0)
Total capitalisation and indebtedness	7,309.0	61,580.6

Notes:

(1) Converted into US dollars for convenience at the exchange rate of KZT 118.69 per US \$1.00, being the official Tenge to US dollar exchange rate as reported by the NBK at 30 June 2006.

Since 30 June 2006, the date of the Company's latest interim accounts, other than as shown above and except with respect to the partial repayment of the Company's debt facilities as described in "*Operating and Financial Review and Results of Operations of the Company — Liquidity and Capital Resources — Capital resources*", there has been no material change in the Company's consolidated capitalisation and indebtedness (including in respect of contingent liabilities and guarantees), and there has been no significant change in the financial or trading position of the Company. In addition, other than with respect to the acquisition by the Issuer of the entire share capital of the Company, as described under "*Business Description — The Issuer*", there has been no significant change in the Issuer's consolidated financial or trading position since the Issuer's incorporation on 6 November 2006.

**SELECTED HISTORICAL FINANCIAL AND OPERATIONAL
INFORMATION FOR THE COMPANY**

Other than the “Operating data” set out below, which has been extracted without material adjustment from the Company’s internal records, the selected information presented in Tenge set out below has been derived from, and should be read in conjunction with the Company’s Annual Financial Statements as at, and for the years ended, 31 December 2003, 2004 and 2005, and the related notes thereto, and its Interim Financial Statements as at, and for the six months ended, 30 June 2005 and 2006 included elsewhere in this prospectus.

The Financial Statements have been prepared in accordance with IFRS. The following information should be read in conjunction with “*Operating and Financial Review and Results of Operations of the Company*”, the related historical financial information and the accompanying notes thereto and the CPR included elsewhere in this prospectus.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽²⁾
	(audited)				(unaudited)		
	(KZT, million)			(US \$, thousand)	(KZT, million)		(US \$, thousand)
Income statement data							
Revenue	—	333.6	1,054.5	7,936.9	438.1	1,085.3	8,538.9
Cost of sales	—	(639.1)	(1,301.7)	(9,797.5)	(577.9)	(829.2)	(6,524.0)
Gross (loss)/profit	—	(305.5)	(247.3)	(1,861.4)	(139.8)	256.0	2,014.2
General and administrative expenses	(165.7)	(388.6)	(411.2)	(3,095.0)	(183.7)	(195.3)	(1,536.6)
Distribution costs	—	(26.1)	(46.3)	(348.5)	(24.9)	(29.8)	(234.5)
Other operating (expenses)/income, net	(0.3)	0.9	(2.5)	(18.8)	—	1.0	7.9
Operating (loss)/profit	(166.0)	(721.1)	(707.3)	(5,323.6)	(348.4)	31.8	250.2
Finance costs, net	(182.4)	(363.5)	(584.4)	(4,398.6)	(249.4)	(300.2)	(2,361.9)
Foreign exchange gain/(loss), net	69.1	104.1	(32.9)	(247.6)	(50.4)	169.7	1,335.2
Other income/(expenses), net	86.2	(12.4)	(9.4)	(70.8)	(4.0)	(4.9)	(38.6)
Loss before taxation	(193.0)	(993.0)	(1,334.0)	(10,040.6)	(652.3)	(103.5)	(814.3)
Taxation	—	—	—	—	—	—	—
Net loss	(193.0)	(993.0)	(1,334.0)	(10,040.6)	(652.3)	(103.5)	(814.3)

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 132.86 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 127.10 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2006.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005 ⁽¹⁾	2005	2006	2006 ⁽²⁾
	(audited)				(unaudited)		
	(KZT, million)			(US \$, thousand)	(KZT, million)		(US \$, thousand)
Cash flow data							
Cash (used in)/from operating activities	(388.6)	(1,180.4)	(583.9)	(4,394.9)	(468.6)	103.3	812.7
Cash (used in)/from investing activities	(1,093.8)	(404.8)	(4,597.1)	(34,601.1)	(188.7)	(95.3)	(749.8)
Cash from/(used in) financing activities	1,419.3	1,616.6	5,140.4	38,690.4	642.5	36.7	288.7
Net change in cash and cash equivalents	(63.1)	31.3	(40.6)	(305.6)	(14.8)	44.8	352.5

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 132.86 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 127.10 per US \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK for the six months ended 30 June 2006.

	As at 31 December				As at 30 June	
	2003	2004	2005	2005 ⁽¹⁾	2006	2006 ⁽²⁾
	(audited)				(unaudited)	
	(KZT, millions)			(US \$, thousand)	(KZT, millions)	(US \$, thousand)
Balance sheet data						
Cash and cash equivalents	38.2	69.4	28.8	215.3	73.6	620.1
Total current assets	229.6	1,020.0	4,975.3	37,192.9	5,279.1	44,478.1
Total non-current assets	1,849.7	2,174.0	2,630.9	19,667.3	2,597.9	21,888.1
Total assets	2,079.3	3,194.0	7,606.2	56,860.3	7,877.1	66,367.0
Other current liabilities	8.9	6.0	12.3	91.9	36.9	310.9
Total current liabilities	22.0	295.1	4,325.6	32,336.1	4,328.1	36,465.6
Total non-current liabilities	2,621.0	4,455.7	6,171.4	46,134.4	6,543.3	55,129.3
Total partners' equity and liabilities	2,079.3	3,194.0	7,606.2	56,860.3	7,877.1	66,367.0

Notes:

- (1) Converted into US dollars for convenience using an exchange rate of KZT 133.77 per \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at 31 December 2005.
- (2) Converted into US dollars for convenience using an exchange rate of KZT 118.69 per \$1.00, being the average official Tenge to US dollar exchange rate as reported by the NBK as at 30 June 2006.

Operating data

	Year ended 31 December			Six months ended 30 June	
	2003 ⁽¹⁾	2004 ⁽²⁾	2005	2005	2006
Ore mined (<i>tonnes, thousands</i>)	n/a	232	360	171	163
Ore processed (<i>tonnes, thousands</i>)	n/a	210	359	167	189
Metal content in ore processed (%)					
Zinc	n/a	3.3%	3.6%	3.3%	3.5%
Lead	n/a	1.0%	1.6%	1.7%	1.6%
Recovery of the metal in ore (%)					
Zinc	n/a	61.9%	64.2%	65.9%	60.0%
Lead	n/a	40.4%	38.1%	39.5%	33.5%
Sales of concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	9.2	17.9	7.7	8.8
Lead	n/a	2.4	6.2	3.0	2.9
Metal content in concentrate (%)					
Zinc	n/a	47.1%	46.2%	47.2%	45.0%
Lead	n/a	34.9%	35.1%	36.4%	34.2%
Metal content in concentrate (<i>tonnes, thousands</i>)					
Zinc	n/a	4.3	8.3	3.7	4.0
Lead	n/a	0.8	2.2	1.1	1.0

Notes:

- (1) No data available for 2003, as extraction and processing activities commenced in February and March 2004, respectively.
- (2) As of February or March 2004, when extraction and processing activities commenced, as applicable.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS OF THE COMPANY

The following is a discussion of the results of the Company's operations and financial condition for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2005 and 2006. The Company's Annual Financial Statements and Interim Financial Statements have been prepared in accordance with IFRS. Prospective investors should read this discussion in conjunction with the Company's Financial Statements and the related notes included elsewhere in this prospectus. This section does not contain a discussion of the results of operations and financial condition of the Issuer, the financial statements of which are not presented in this prospectus. The Company is the Issuer's only direct subsidiary.

The following discussion contains forward-looking statements about the Company's future revenue, operating results and expectations that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in the "Risk Factors" section and elsewhere in this prospectus.

Factors affecting the Company's financial performance

The Company's results of operations have been affected and are expected to continue to be affected by a number of factors, including output levels, the prices of zinc and lead metal quoted on the LME, exchange rates, production costs, electricity costs, transportation costs, as well as the Company's capital expenditure programme for expansion of its extraction and processing capacity. In addition, a significant factor affecting the Company's financial performance is the fact that the Company only commenced its processing and trading activities in March 2004, prior to which the Company's activities mainly consisted of preparation and restoration and mining operations. These factors are discussed in more detail below.

Output levels

The Company's results of operations, and in particular its revenue, are affected by its production levels. Production levels are limited by the Company's mining, extraction and processing capacities at the Shalkiya Mine and the Kentau Plant.

The table below provides key operating data for the years ended 31 December 2003, 2004 and 2005 and for the six months ended 30 June 2005 and 2006:

	Year ended 31 December			Six months ended 30 June	
	2003 ⁽¹⁾	2004 ⁽²⁾	2005	2005	2006
Ore processed (tonnes, thousands)	n/a	210	359	167	189
Metal content in ore processed (%)					
Zinc	n/a	3.3%	3.6%	3.3%	3.5%
Lead	n/a	1.0%	1.6%	1.7%	1.6%
Recovery of the metal in ore (%)					
Zinc	n/a	61.9%	64.2%	65.9%	60.0%
Lead	n/a	40.4%	38.1%	39.5%	33.5%
Sales of concentrate (tonnes, thousands)					
Zinc	n/a	9.2	17.9	7.7	8.8
Lead	n/a	2.4	6.2	3.0	2.9
Metal content in concentrate (%)					
Zinc	n/a	47.1%	46.2%	47.2%	45.0%
Lead	n/a	34.9%	35.1%	36.4%	34.2%
Metal content in concentrate (tonnes, thousands)					
Zinc	n/a	4.3	8.3	3.7	4.0
Lead	n/a	0.8	2.2	1.1	1.0

Notes:

(1) No data available for 2003, as extraction and processing commenced in February and March 2004, respectively.

(2) As of February or March 2004, when extraction and processing commenced, as applicable.

Ore processed in the six months ended 30 June 2006 increased to 189 thousand tonnes from 167 thousand tonnes in the six months ended 30 June 2005, representing an increase of 13%, which resulted in an increase of 14% in the volume of sales of zinc concentrate from 7.7 thousand tonnes in the six months ended 30 June 2005 to 8.8 thousand tonnes in the six months ended 30 June 2006. In 2005, ore processed increased to 359 thousand

tonnes from 210 thousand tonnes in 2004, representing an increase of 71% and resulting in an increase of 95% in the volume of sales of zinc concentrate from 9.2 thousand tonnes in 2004 to 17.9 thousand tonnes in 2005.

Commencement of extraction and processing activities in February and March 2004, respectively

The Company commenced extraction of complex zinc-lead ore at the Shalkiya Mine in February 2004. Processing of ore at the Kentau Plant and sales of zinc and lead concentrate commenced in mid-March 2004. Prior to February 2004 and during 2003, the Company's activities mainly consisted of preparation of its sites and facilities for the commencement of extraction and processing of complex zinc-lead ore, including repairs at the Shalkiya Mine and restoration and refurbishment works at the Kentau Plant.

As a result, the Company's operating results in the periods under review reflect sales of zinc and lead concentrates for the entire year in 2005, as compared to less than ten months in 2004, while the Company had no revenue in 2003, although in 2003 and the first two months of 2004 it incurred costs in connection with its preparation and refurbishment activities.

Zinc and lead prices

Of the Company's total revenue, 89.1% in 2005 and 92.5% in the six months ended 30 June 2006 were derived from sales of zinc concentrate, with the balance derived mainly from sales of lead concentrate. The prices at which the Company sells its products are linked to the prices of zinc and lead metal as quoted on the LME. In particular, the price at which the Company sells its concentrates are based on the average quote of zinc or lead for the five trading days following product delivery by the Company, adjusted for a number of factors, mainly transportation costs, costs of metallurgical treatment (treatment change), processing of concentrate and losses of zinc or lead during such processing, the grade of zinc or lead concentrate sold (i.e., the percentage of metal contained in the concentrate) and the level of concentration of non-metallic substances in the concentrate, such as moisture content and silica.

In general, the Company currently realises relatively lower sales prices for its concentrates, compared to other zinc producers, mainly due to the fact that ore extracted at the Shalkiya Mine is of relatively low quality, with relatively high concentration of non-metallic substances, such as moisture content and silica.

As explained above, fluctuations in the prices of zinc and lead metal quoted on the LME have a significant impact on the Company's operating results. As discussed in "*Risk Factors — Risks relating to the zinc and lead mining industries — Risks relating to the fluctuation of zinc and lead prices*", the price of zinc and lead can vary significantly and is affected by a number of factors which are outside of the Company's control.

During the period from 1 January 2004 to 30 June 2006, the average price of zinc metal as quoted on the LME has generally increased, from US \$1,048 per tonne in 2004, to US \$1,383 per tonne in 2005 and US \$2,767 per tonne in the six months ended 30 June 2006, while it further increased to US \$3,260 per tonne on 30 June 2006. This has had a significant positive impact on the Company's revenue, resulting in the Company realising increasing average sales prices per tonne for its zinc concentrate. In particular, since the commencement of processing and sales in March 2004, the Company has sold its zinc concentrate at the following average prices:

- US \$1,992 per tonne of zinc in zinc concentrate with an average grade of 45.0% (representing approximately 72% of the average LME-quoted price) in the six months ended 30 June 2006;
- US \$853 per tonne with an average grade of 46.2% (representing approximately 62% of the average LME-quoted price) in 2005; and
- US \$515 per tonne with an average grade of 47.1% (representing approximately 49% of the average LME-quoted price) in 2004.

The following table shows the period-end, average, high and low LME fixing prices for zinc metal, expressed in US dollars per tonne for the dates and periods indicated.

<u>Period</u>	<u>LME-quoted prices of zinc metal</u>			
	<u>Period-end</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
	(US \$ per tonne)			
2004	1,270	1,048	1,270	943
2005	1,915	1,383	1,915	1,165
Six months ended 30 June 2005	1,223	1,295	1,430	1,198
Six months ended 30 June 2006	3,260	2,767	3,990	1,912
September 2006	3,360	3,403	—	—
October 2006	4,290	3,823	—	—

Source: Bloomberg

On 24 November 2006, the LME fixing price for zinc metal was US \$4,510 per tonne.

In addition, during the period from 1 January 2003 to 30 June 2006, the price of lead has generally increased, which has had a positive impact on the Company's revenue. As a result, the Company has sold its lead concentrate at the following average prices:

- US \$530 per tonne of lead in lead concentrate with an average grade of 34.2% (representing 45% of the average LME-quoted price) in the six months ended 30 June 2006;
- US \$397 per tonne with an average grade of 35.1% (representing 41% of the average LME-quoted price) in 2005; and
- US \$259 per tonne with an average grade of 34.9% (representing 29% of the average LME-quoted price) in 2004.

The following table shows the period-end, average, high and low LME fixing prices for lead metal expressed in US dollars per tonne for the dates and periods indicated.

<u>Period</u>	<u>LME-quoted prices of lead metal</u>			
	<u>Period-end</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
	(US \$ per tonne)			
2003	740	516	740	422
2004	1,056	887	1,056	697
2005	1,100	977	1,156	824
Six months ended 30 June 2005	927	985	1,034	912
Six months ended 30 June 2006	955	1,168	1,448	915
September 2006	1,425	1,342	—	—
October 2006	1,656	1,531	—	—

Source: Bloomberg

Exchange rates

Substantially all of the Company's revenue is denominated in US dollars. In addition, a significant part of its production costs are incurred, and most of its borrowings are denominated, in Tenge, while most of its capital expenditure and a small portion of its borrowings is denominated in US dollars. Accordingly, the Company's operating results are affected by fluctuations in the exchange rate between the US dollar and the Tenge.

Over the period from 1 January 2003 to 30 June 2006, the Tenge has gradually appreciated against the US dollar. In particular, in the six months ended 30 June 2006, the average exchange rate of the Tenge against the US dollar appreciated by 3% compared to the six months ended 30 June 2005 and in 2005 the average rate of the Tenge appreciated against the US dollar by 2% compared to 2004. The appreciation of the Tenge against the US dollar had a negative impact on the Company's operating results, which was, however, offset by the significant increase in the price of zinc and lead over the same periods.

The following table shows for the dates and periods indicated the period-end, average, high and low official exchange rate of the Tenge against the US dollar, as reported by the NBK expressed in KZT per \$1.00.

<u>Period</u>	<u>Period-end</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
		(KZT)		
2003	144.2	149.5	155.8	143.7
2004	130.0	136.0	143.3	130.0
2005	133.8	132.9	136.1	129.8
Six months ended 30 June 2005	135.3	131.2	136.0	129.8
Six months ended 30 June 2006	118.7	127.1	133.9	118.3
September 2006	127.1	126.3	127.1	125.5
October 2006	127.8	127.7	127.9	127.2

Source: NBK.

Production costs and efficiency

In common with other zinc producers, the Company is unable to directly influence the market price of zinc and lead metal. As a result, it may increase its profitability primarily through reducing its operating and capital costs and improving its operating efficiency. The costs associated with the mining and processing of zinc and lead can be broadly categorised as follows: labour, consumables, royalties, depreciation, energy and other variable costs, which include transportation and maintenance costs. The Company benefits from relatively low labour, electricity and transportation costs.

In order to reduce the cost of transportation of ore from the Shalkiya Mine to the Kentau Plant over a distance of 165 km, the Company plans to build the New Processing Plant on location at the Shalkiya Mine. See “*Business Description — Strategy — Construction of the New Processing Plant*”.

Production costs and costs per tonne of ore are significantly, but not wholly, affected by changes in production volumes, and, hence, production levels are a major factor in determining the Company’s overall profitability and competitiveness. Cash operating costs per tonne of ore decreased from KZT 2,934 (US \$21.6) per tonne in 2004, to KZT 2,815 (US \$21.3) per tonne in 2005, but increased from KZT 2,765 (US \$21.0) per tonne in the six months ended 30 June 2005 to KZT 3,574 (US \$28.1) per tonne in the six months ended 30 June 2006. The increase in cash operating costs in the first six months of 2006 was due to increases in the cost of electricity, transportation costs, consumables and reagent costs.

Modernisation programme and new financing

In the medium term, the Company plans to modernise and expand the mining capacity of the Shalkiya Mine through the introduction of new equipment and technologies and to increase the processing capacity of the Kentau Plant from its current level of 0.5 million tonnes of ore per annum to 1.5 million tonnes by 2008. The Company expects to expend US \$16.2 million for the completion of these projects.

In addition, the Company intends to construct the New Processing Plant with processing capacity of up to three million tonnes of ore per annum on location at the Shalkiya Mine and to expand the Mine’s mining capacity by 2010. The Company expects to expend US \$130 million for the completion of this project, of which US \$87 million is expected to be used for the construction of the New Processing Plant, with the remaining amount to be used in the expansion of the Shalkiya Mine and related infrastructure.

Political and Economic Conditions in Kazakhstan

All of the Company’s mining operations are conducted in Kazakhstan and the majority of its products are sold in Kazakhstan. Accordingly, the Company is substantially dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan’s existence as an independent state resulted from the dissolution of the FSU. As such, Kazakhstan has a relatively short history as an independent state and there remains potential for social, political, economic, legal and fiscal instability.

Kazakhstan is in the process of moving from a centralised economic model to a market economy. It has recently pursued a programme of economic reform and inward foreign investment designed to establish a free market economy, but there can be no assurance that in the future such and other reforms will continue. The Company’s operation in Kazakhstan exposes it to a number of country or regional macroeconomic factors which may

influence its operating results or financial condition, including, among other factors, local currency devaluation, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes to tariffs applicable to the Company's and its products, changes with respect to taxes, royalty rates, or withholding taxes on distributions to foreign investors; changes in anti-monopoly legislation, nationalisation or expropriation of property; and interruption or blockage of hydrocarbons or other strategic materials exports.

Inflation rates

The average inflation rate in Kazakhstan was 7.5% in 2005, 6.7% in 2004 and 6.8% in 2003. In addition, the refinancing interest rate applicable by the NBK was 7.5% in 2005, 7% in 2004 and 7.5% in 2003.

RESULTS OF OPERATIONS

The table below shows the Company's results of operations for the years ended 31 December 2003, 2004 and 2005 and for the six-month periods ended 30 June 2005 and 2006:

	For the years ended 31 December			For the six months ended 30 June	
	2003	2004 (audited)	2005	2005 (unaudited)	2006 (unaudited)
	(KZT, millions)				
Revenue	—	333.6	1,054.5	438.1	1,085.3
Cost of Sales	—	(639.1)	(1,301.7)	(577.9)	(829.2)
Gross (Loss) Profit	—	(305.5)	(247.3)	(139.8)	256.0
General and Administrative Expenses	(165.7)	(388.6)	(411.2)	(183.7)	(195.3)
Distribution Costs	—	(26.1)	(46.3)	(24.9)	(29.8)
Other Operating (Expenses) Income, Net	(0.3)	0.9	(2.5)	—	1.0
Operating (Loss) Profit	(166.0)	(721.1)	(707.3)	(348.4)	31.8
Finance Costs, Net	(182.4)	(363.5)	(584.4)	(249.4)	(300.2)
Foreign Exchange Gain (Loss), Net	69.1	104.1	(32.9)	(50.4)	169.7
Other Income (Expenses), Net	86.2	(12.4)	(9.4)	(4.0)	(4.9)
Loss Before Taxation	(193.0)	(993.0)	(1,334.0)	(652.3)	(103.5)
Taxation	—	—	—	—	—
Net Loss	(193.0)	(993.0)	(1,334.0)	(652.3)	(103.5)

SIX MONTHS ENDED 30 JUNE 2006 COMPARED TO SIX MONTHS ENDED 30 JUNE 2005

Revenue

Revenue increased to KZT 1,085.3 million in the six months ended 30 June 2006 from KZT 438.1 million in the six months ended 30 June 2005, representing an increase of 148%. The overall increase in revenue was primarily attributable to a significant increase in LME-quoted prices for zinc metal over the periods under comparison and an increase in sales of zinc and lead concentrates, due mainly to increased ore output.

Revenue from sales of zinc concentrate constituted 92.5% of all revenue in the six months ended 30 June 2006, compared to 86.5% in the six months ended 30 June 2005, while revenue derived from sales of lead concentrate in the same periods was 6.2% and 13.5%, respectively (with the balance derived from sales of dolomite extracted from the Ogizmuiz deposit).

Revenue from sales of zinc concentrate increased to KZT 1,003.7 million in the six months ended 30 June 2006 from KZT 379.0 million in the six months ended 30 June 2005, representing an increase of 165%. This increase was primarily due to the following factors:

- the average LME-quoted price of zinc metal increased to US \$2,767 per tonne of zinc in the six months ended 30 June 2006, from US \$1,295 per tonne of zinc in the six months ended 30 June 2005, representing an increase of 114% (US \$3,260 per tonne on 30 June 2006, compared to US \$1,223 on 30 June 2005); and
- ore processing output increased to 189 thousand tonnes in the six months ended 30 June 2006, from 167 thousand tonnes in the six months ended 30 June 2005, representing an increase of 13%; volume of sales of zinc concentrate increased by 14%, to 8.8 thousand tonnes in the six months ended 30 June 2006, from 7.7 thousand tonnes in six months ended 30 June 2005.

The effect of the above increases in LME-quoted zinc metal prices and in ore processing output was partially offset by an appreciation in the exchange rate of the Tenge against the US dollar over the periods under comparison. See “— *Factors affecting the Company’s financial performance — Exchange Rates*” above.

Revenue from sales of lead concentrate increased to KZT 66.9 million in the six months ended 30 June 2006, from KZT 59.1 million in the six months ended 30 June 2005, representing an increase of 13%. This increase was primarily due to an increase of 19% in average LME-quoted lead metal prices, to an average of US \$1,168 per tonne of lead in the six months ended 30 June 2006 (US \$955 per tonne on 30 June 2006), from US \$985 per tonne of lead in the six months ended 30 June 2005 (US \$927 per tonne on 30 June 2005).

Despite the 13% increase in ore processing output in the six months ended 30 June 2006, compared to the six months ended 30 June 2005, the volume of sales of lead concentrate declined by 3%, from 3.0 thousand tonnes in the six months ended 30 June 2005, to 2.9 thousand tonnes in the six months ended 30 June 2006. The decline in lead sales was mainly due to lower recovery of lead, as a result of gradual wear-out of flotation machines at the Kentau Plant, which the Company plans to replace as part of its anticipated upgrade of its processing capability.

Cost of sales

Cost of sales increased to KZT 829.2 million in the six months ended 30 June 2006, from KZT 577.9 million in the six months ended 30 June 2005, representing an increase of 43%.

The overall increase in the cost of sales in the six months ended 30 June 2006, compared to the six months ended 30 June 2005, was mainly due to increases in on-mine and concentrating costs, depreciation and amortisation expenses, ore transportation costs and change in finished goods.

Cash operating costs increased to KZT 675.5 million in the six months ended 30 June 2006, from KZT 461.8 million in the six months ended 30 June 2005, representing an increase of 46%. Cash operating costs per tonne of ore processed was KZT 3,574 per tonne in the six months ended 30 June 2006, compared to KZT 2,765 per tonne of ore processed in the six months ended 30 June 2005.

On-mine and concentrating costs increased to KZT 547.4 million in the six months ended 30 June 2006, from KZT 349.5 million in the six months ended 30 June 2005, representing an increase of 57%, which was due primarily to:

- an increase of 30% in labour expenses, to KZT 133.6 million in the six months ended 30 June 2006, from KZT 102.5 million in the six months ended 30 June 2005, due primarily to an increase in salary rates at the Shalkiya Mine and the Kentau Plant and due to the commencement of extraction of dolomite at the Ogizmuiz deposit. The average number of employees engaged in mining and concentrating operations declined to 724 in the six months ended 30 June 2006, as compared to 950 in the same period in 2005. See also “— *General and administrative expenses — Labour expenses*” below;
- an increase of 129% in expenses for consumables and spares, to KZT 249.0 million in the six months ended 30 June 2006, from KZT 108.6 million in the six months ended 30 June 2005, primarily due to an increase in the volume of the Company’s mining and processing activities;
- an increase of 41% in power and other utilities, to KZT 109.6 million in the six months ended 30 June 2006, from KZT 77.5 million in the six months ended 30 June 2005; the significant increase in power and other utilities was due to an increase in electricity tariffs and an increase in mining and processing output;
- a decrease of 32% in expenses for maintenance of property, plant and equipment, to KZT 29.1 million in the six months ended 30 June 2006 decline, from KZT 43.1 million in the six months ended 30 June 2005, due primarily to a decline in maintenance costs for the Kentau Plant; and
- an increase of 46% in third-party services (mainly including geological services, security services, mining rescue team services, outsourcing, the increase is due to an increase in service costs and in mining and processing output and due to the replacement of auxiliary personnel by outsourcing to KZT 26.0 million in the six months ended 30 June 2006, from KZT 17.8 million in six months ended 30 June 2005, due primarily to an increase in the Company’s operating activities in the six months ended 30 June 2006.

Ore transportation costs, consisting of the costs of transportation of ore from the Shalkiya Mine to the Kentau Plant, increased to KZT 105.0 million in the six months ended 30 June 2006, from KZT 102.6 million in the six months ended 30 June 2005, representing an increase of 2%. Ore transportation costs constituted 12.7% and 17.8% of the Company’s Cost of Sales for the six months ended 30 June 2006 and 2005, respectively, and amounted to KZT 555 and KZT 614 per tonne of ore processed, respectively (or US \$4.4 and US \$4.7 per tonne).

Management expects the construction of the New Processing Plant at the Shalkiya Mine to help significantly reduce this cost item, as the processing facilities will be located at the same site as the Shalkiya Mine.

Furthermore, amortisation and depreciation expense increased to KZT 136.2 million in the six months ended 30 June 2006, from KZT 113.5 million in the six months ended 30 June 2005, representing an increase of 20%, primarily due to commissioning of new equipment.

Change in finished goods increased to KZT 17.5 million the six months ended 30 June 2006, from KZT 2.6 million in the six months ended 30 June 2005 (see Note 15 to the Interim Financial Statements), and other expenses (including royalties) also increased to KZT 23.1 million in the six months ended 30 June 2006, from KZT 9.7 million in the six months ended 30 June 2005.

In the six months ended 30 June 2006, the cost per tonne of zinc concentrate sold was KZT 87 thousand per tonne, compared to KZT 64.6 thousand per tonne in the six months ended 30 June 2005, while cost per tonne of lead concentrate sold were KZT 17.6 thousand per tonne, compared to KZT 26.1 thousand per tonne in the six months ended 30 June 2005.

Gross profit

Gross profit was KZT 256.0 million in the six months ended 30 June 2006, compared to a gross loss of KZT (139.8) million in the six months ended 30 June 2005. This increase in gross profit was a result of the 148% increase in revenue, partially offset by the 43% increase in cost of sales in the six months ended 30 June 2006, compared to the six months ended 30 June 2005.

General and administrative expenses

General and administrative expenses increased to KZT 195.3 million in the six months ended 30 June 2006 from KZT 183.7 million in the six months ended 30 June 2005, representing an increase of 6%. The overall increase in general administrative expenses in the six months ended 30 June 2006 was mainly a result of the following elements:

- a decrease of 6% in payroll and salary taxes for employees engaged in managerial and administration activities to KZT 67.4 million in the six months ended 30 June 2006, from KZT 71.4 million in the six months ended 30 June 2005, due to a decrease in the average number of employees employed in managerial and administration activities; see also “— *Labour expenses*” below;
- a decrease of 4% in taxes to KZT 29.2 million in the six months ended 30 June 2006, from KZT 30.5 million in the six months ended 30 June 2005;
- an increase of 671% in consulting services to KZT 35.3 million in the six months ended 30 June 2006, from KZT 4.6 million in the six months ended 30 June 2005, which was mainly due to the engagement of additional advisors leading up to, and in preparation for, the Global Offer and the Admission;
- a decrease of 83% in insurance expenses to KZT 2.9 million in the six months ended 30 June 2006, from KZT 16.9 million in the six months ended 30 June 2005; insurance expenses decreased due to the expiry of a contract for voluntary insurance of damage to third parties; the Company continues to take insurance coverage as required under Kazakhstan law;
- an increase of 36% in other general and administrative expenses to KZT 23.8 million in the six months ended 30 June 2006, from KZT 17.5 million in the six months ended 30 June 2005; and
- decreases in: rent (KZT 8.6 million in the six months ended 30 June 2006, from KZT 10.5 million in the six months ended 30 June 2005), bank charges (KZT 3.4 million in the six months ended 30 June 2006, from KZT 7.0 million in six months ended 30 June 2005) and maintenance costs (KZT 0.8 million in the six months ended 30 June 2006, from KZT 2.2 million in the six months ended 30 June 2005).

Labour expenses. Total payroll and salary taxes expenses for all of the Company’s employees (including employees engaged in mining and processing, as well as in managerial and administration activities) increased by 16% to KZT 201.0 million in the six months ended 30 June 2006, from KZT 173.9 million in the six months ended 30 June 2005.

The increase in total payroll and salary taxes and expenses was mainly due to a significant general increase in salaries, which in general terms brought the Company’s salary rates in line with the country’s average, partially offset by a decline in the average number of employees for the respective period to an average of 754 employees

for the six months ended 30 June 2006 (718 employees as at 30 June 2006), compared to an average of 950 employees for the six months ended 30 June 2005 (968 employees as at 30 June 2005).

Average labour expenses per employee (with respect to all of the Company's employees) were KZT 266.5 thousand in the six months ended 30 June 2006 (or average labour expenses of KZT 44.4 thousand per employee per month), compared to KZT 183.0 thousand in the six months ended 30 June 2005 (or average labour expenses of KZT 30.5 thousand per employee per month).

Distribution costs

Distribution costs consist of railway services, packaging expenses and other expenses.

Distribution costs increased to KZT 29.8 million in the six months ended 30 June 2006, from KZT 24.9 million in the six months ended 30 June 2005, representing an increase of 20%. This increase was primarily due to an increase in the cost of railway services to KZT 23.5 million in the six months ended 30 June 2006, from KZT 19.2 million in the six months ended 30 June 2005, an increase in sales of zinc concentrate, which resulted in increased packaging expenses, and an increase in other distribution costs.

Other operating (expenses) income, net

Other net operating expenses, net were KZT 1.0 million in the six months ended 30 June 2006, compared to nil in the six months ended 30 June 2005.

Operating profit

The Company realised an operating profit of KZT 31.8 million in the six months ended 30 June 2006, compared to an operating loss of KZT 348.4 million in the six months ended 30 June 2005. Operating profit per tonne of ore processed was KZT 168 per tonne in the six months ended 30 June 2006, compared to operating loss per tonne of ore processed of KZT 2.1 thousand per tonne in the six months ended 30 June 2005. This decrease in operating loss was mainly a result of the 148% increase in revenue and the 43% increase in cost of sales, combined with the effect of the 6% increase in general administrative expenses and 20% increase in distribution costs.

Finance costs

Finance costs consist of interest expense related to the Company's loans from Bank TuranAlem and unwinding of discounts relating to provisions for future site restoration in connection with obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage and in connection with amounts due to the Republic of Kazakhstan. Most of these costs are expected to be incurred at the end of the mining operations. The extent and cost of future remediation programmes depend on the estimated lives of the mines, the scale of any possible contamination and the timing and extent of corrective actions.

Finance costs increased to KZT 300.2 million in the six months ended 30 June 2006, from KZT 249.4 million in the six months ended 30 June 2005, representing an increase of 20%. This increase was due primarily to an increase in interest expense relating to the Company's loan from Bank TuranAlem, to KZT 523.0 million in the six months ended 30 June 2006, from KZT 222.0 million in the six months ended 30 June 2005, as a result of an increase in the outstanding amount borrowed by the Company in the periods under comparison (KZT 10.3 billion as at 30 June 2006, compared to KZT 4.3 billion as at 30 June 2005), (see Note 20 to the Interim Financial Statements), as well as due to an increase in unwinding of discounts of the provisions for future site restoration costs and historical costs due to the Republic of Kazakhstan with respect to the Talap Deposit. See Notes 10, 21 and 22 to the Interim Financial Statements.

Foreign exchange gain

Foreign exchange gain was KZT 169.7 million in the six months ended 30 June 2006, compared to a foreign exchange loss of KZT 50.4 million in the six months ended 30 June 2005. This increase was due primarily to revaluation of the US dollar-denominated portion of the Company's loans.

Other expenses, net

Net other expenses include maintenance of dormitories at the Shalkiya Mine and at the Kentau Plant.

Net other expenses were KZT 4.9 million in the six months ended 30 June 2006, compared to KZT 4.0 million in the six months ended 30 June 2005, representing an increase of 22%. This increase was due primarily to an increase in utilities costs for maintenance of dormitories at the Shalkiya Mine and at the Kentau Plant.

Loss before taxation

Loss before taxation was KZT 103.5 million in the six months ended 30 June 2006, compared to KZT 652.3 million in the six months ended 30 June 2005, representing a decrease of 84%.

Taxation

Income taxes consist of taxes at the statutory rate, offset by deferred tax assets and liabilities. Deferred tax assets arise from capitalised costs and tax loss carry-forward.

The Company is in principle subject to corporate income tax at a rate of 30% (subject to certain exceptions) in Kazakhstan with respect to profits from its activities, provided that the Company's profits from its activities at the Shalkiya Mine are, and its future activities at the Talap Deposit will be, also subject to additional excess profit tax applicable under the Company's respective subsoil use contracts. See "*Business Description — Taxation of the Company in Kazakhstan*".

The Company did not incur any current income taxes in the six-month periods ended 30 June 2006 and 2005, as it operated at a loss in both these periods. The Company has unused tax losses available for carry-forward against future taxable income that will expire on an annual basis, beginning from 2008 to 2011.

Net loss

The Company's net loss decreased to KZT (103.5) million for the six months ended 30 June 2006, from KZT (652.3) million in the six months ended 30 June 2005, representing a decrease of 84%.

YEAR ENDED 31 DECEMBER 2005 COMPARED TO YEAR ENDED 31 DECEMBER 2004

Revenue

Revenue increased to KZT 1,054.5 million in 2005, from KZT 333.6 million in 2004, representing an increase of 216%. The overall increase in total revenue in 2005 compared to 2004 was primarily due to a significant increase in LME-quoted prices for zinc metal and the increase in sales of zinc and lead concentrates, due to the Company trading for the entire year in 2005, as opposed to less than ten months in 2004, as a result of the commencement of trading activities as of mid-March 2004.

Revenue from sales of zinc concentrate constituted 89.1% of total revenue in 2005, compared to 91.0% in 2004, with the balance being derived from sales of lead concentrate in the respective periods.

Revenue from sales of zinc concentrate increased to KZT 939.6 million in 2005, from KZT 303.7 million in 2004, primarily due to an increase in zinc prices, as well as an increase in zinc concentrate sales volumes. In particular:

- the average LME-quoted price of zinc metal increased to US \$1,383 per tonne of zinc in 2005, from US \$1,048 per tonne of zinc in 2004, which represented an increase in average price of 32% (US \$1,915 per tonne on 31 December 2005, compared to US \$1,270 per tonne on 31 December 2004); and
- ore processing output increased to 359 thousand tonnes in 2005, from 210 thousand tonnes in 2004, representing an increase of 71%; volume of sales of zinc concentrate increased by 95%, to 17.9 thousand tonnes in 2005, from 9.2 thousand tonnes in 2004, which was mainly due to the Company's commencement of processing activities and sales in mid-March 2004.

The effect of the above increases in LME-quoted zinc metal prices and ore processing output was partially offset by an appreciation in the exchange rate of the Tenge against the US dollar over the periods compared. See "*— Factors affecting the Company's financial performance — Exchange Rates*" above.

Revenue from sales of lead concentrate increased to KZT 114.9 million in 2005 from KZT 29.9 million in 2004, primarily due to an increase of 10% in average LME-quoted lead metal prices, to an average price of US \$977 per tonne of lead in 2005 (US \$1,100 per tonne on 31 December 2005), from US \$887 per tonne of lead in 2004 (US \$1,056 per tonne on 31 December 2004), and the increase of 71% in ore processing output, which allowed an increase of 158% in the volume of sales of lead concentrate from 2.4 thousand tonnes in 2004, to 6.2 thousand tonnes in 2005, which was mainly due to the Company having commenced processing activities as of March 2004.

Cost of sales

Cost of sales increased to KZT 1,301.7 million in 2005, from KZT 639.1 million in 2004, representing an increase of 104%. The overall increase in the cost of sales in 2005 was primarily a result of the increase in sales of zinc and lead concentrates, due to the Company trading for the entire year in 2005, compared to less than ten months in 2004.

The increase in the cost of sales in 2005, compared to 2004, was mainly due to increases in mining and processing costs, depreciation and amortisation expenses, ore transportation costs, change in final goods and other expenses.

Cash operating costs increased to KZT 1,009.2 million in 2005, from KZT 615.5 million in 2004, representing an increase of 64%. Cash operating costs per tonne of ore processed was KZT 2,815 per tonne in 2005, compared to KZT 2,934 per tonne of ore processed in 2004.

On-mine and concentrating costs increased to KZT 811.0 million in 2005, from KZT 501.8 million in 2004, representing an increase of 62%, which was due primarily to:

- an increase of 58% in on-mine and concentrating labour expenses, to KZT 212.6 million in 2005, from KZT 134.5 million in 2004, due primarily to an increase in the average number of employees employed in mining and concentrating operations to 919 in 2005 from 793 in 2004; see also “*General and administrative expenses — Labour expenses*” below;
- an increase of 59% in expenses for consumables and spares, to KZT 339.9 million in 2005, from KZT 213.2 million in 2004, primarily due to the Company operating for twelve months in 2005, compared to less than ten months in 2004;
- an increase of 62% in utilities, to KZT 162.3 million in 2005, from KZT 100.2 million in 2004, primarily due to the Company operating for twelve months in 2005, compared to less than ten months in 2004, as well as increases in the cost of electricity;
- an increase of 89% in expenses for maintenance of property, plant and equipment, to KZT 66.8 million in 2005, from KZT 35.4 million in 2004, due primarily to increasing maintenance costs for the Kentau Plant in 2005; and
- an increase of 57% in third-party services (mainly including geological services, security services, mining rescue team services; the increase is due to increase of mining output) to KZT 29.3 million in 2005, from KZT 18.6 million in 2004, due primarily to an increase in the Company’s operating activities in 2005.

Ore transportation costs, consisting of the costs of transportation of ore from the Shalkiya Mine to the Kentau Plant, increased to KZT 177.0 million in 2005, from KZT 107.5 million in 2004, representing an increase of 65%, mainly as a result of increased ore output, due to the Company operating for the entire year in 2005, compared to less than ten months in 2004. Ore transportation costs constituted 13.6% and 16.8% of the Company’s Cost of Sales for 2005 and 2004, respectively, and amounted to KZT 494 and KZT 512 per tonne of ore processed, respectively (or US \$3.7 and US \$3.8 per tonne).

Amortisation and depreciation expense increased to KZT 233.7 million in 2005, from KZT 170.5 million in 2004, representing an increase of 37%, primarily due to commissioning of new equipment at the Shalkiya mine.

Change in finished goods increased to KZT 58.8 million in 2005, from KZT (146.9) million in 2004, and other expenses (including royalties) also increased to KZT 21.3 million in 2005, from KZT 6.2 million in 2004. See Note to 15 to the Annual Financial Statements.

Gross loss

Gross loss decreased to KZT 247.3 million in 2005, from KZT 305.5 million in 2004, representing a decrease of 19%. This decrease was a result of the 216% revenue increase, partially offset by the increase of 104% in cost of sales for 2005, as compared to 2004.

General and administrative expenses

General and administrative expenses increased to KZT 411.2 million in 2005 from KZT 388.6 million in 2004, representing an increase of 6%. The overall increase in general administrative expenses in 2005 was mainly a

result of the Company trading for the entire year in 2005, as compared to less than ten months in 2004. In particular, the change in general and administrative expenses was due to the following elements:

- a decrease of 4% in payroll and salary taxes for employees engaged in managerial and administrative activities, to KZT 173.7 million in 2005, from KZT 181.2 million in 2004; see “— *Labour expenses*” below;
- an increase of 37% in taxes to KZT 36.0 million in 2005, from KZT 26.3 million in 2004;
- an increase of 38% in business trip expenses to KZT 23.6 million in 2005, from KZT 17.1 million in 2004;
- an increase in consulting services to KZT 33.9 million in 2005, from KZT 5.4 million in 2004;
- an increase of 4% in insurance expenses to KZT 28.4 million in 2005, from KZT 27.2 million in 2004; insurance expenses increased in 2005, because the Company’s insurance policy was taken in 2004 for the first time, resulting in higher insurance rates in 2004;
- a decrease of 18% in other general and administrative expenses to KZT 35.9 million in 2005, from KZT 43.9 million in 2004;
- an increase of 107% in bank charges (KZT 15.2 million in 2005, from KZT 7.3 million in 2004) and a decrease of 4% in depreciation expense; and
- decreases in: maintenance costs (KZT 1.6 million in 2005, from KZT 7.5 million in 2004), security services (KZT 2.1 million in 2005, from KZT 7.4 million in 2004) and an increase in rent (KZT 19.5 million in 2005, from KZT 18.6 million in 2004).

Labour expenses. Total payroll and salary taxes expenses for all of the Company’s employees (including employees engaged in mining and processing, as well as in managerial and administration activities) increased by 22% to KZT 386.36 million in 2005, from KZT 315.6 million in 2004.

The increase in total payroll and salary taxes and expenses was mainly due to a general increase in salaries, and a 15% increase in the average number of employees for the respective periods to an average of 947 employees in 2005 (808 employees as at 31 December 2005), compared to an average of 825 employees in 2004 (903 employees as at 31 December 2004). The increase in the numbers of employees and the resulting increase in labour expenses were due to the increase in the Company’s mining and processing output and increases in salary rates.

Average labour expenses per employee (for all of the Company’s employees) were KZT 408.0 thousand in 2005, (or labour expenses of KZT 34.0 thousand per employee per month), compared to KZT 382.6 thousand in 2004 (or KZT 31.9 thousand per employee per month).

Distribution costs

Distribution costs increased to KZT 46.3 million in 2005, from KZT 26.1 million in 2004, representing an increase of 77%. This increase was primarily due to an increase in railway transportation costs from KZT 20.0 million in 2004, to KZT 36.8 million in 2005, and increases in packaging expenses and other distribution costs, due to the increase in the Company’s sales in 2005.

Other operating expenses, net

Other net operating expenses were KZT 2.5 million in 2005, an increase of 191%, compared to KZT 0.9 million in 2004.

Operating loss

Operating loss was KZT 707.3 million in 2005, a decrease of 2%, compared to KZT 721.1 million in 2004. Operating loss per tonne of ore processed in 2005 decreased by 42% from KZT 3,433 per tonne in 2004, to KZT 1,970 per tonne in 2005. This decrease in operating loss was a result of the 216% increase in revenue and the 104% increase in cost of sales, combined with the effect of the 6% increase in general and administrative expenses and the 77% increase in distribution costs.

Finance costs

Finance costs were KZT 584.4 million in 2005, an increase of 61%, compared to KZT 363.5 million in 2004. This increase was due primarily to a 56% increase in interest expense from KZT 339.7 million in 2004 to

KZT 529.6 million in 2005, relating to the Company's loan from Bank TuranAlem. This resulted from an increase in the outstanding principal amount borrowed by the Company in 2005, as compared to 2004 (KZT 9.9 billion as at 31 December 2005, compared to KZT 4.3 billion as at 31 December 2004). Finance costs also increased due to an increase in unwinding of the discounts of the provisions for future site restoration costs and historical costs due to the Republic of Kazakhstan with respect to the Talap Deposit. See Notes 10, 21 and 22 to the Annual Financial Statements.

Foreign exchange gain

In 2005, the Company realised foreign exchange losses of KZT 32.9 million, compared to a foreign exchange gain of KZT 104.2 million in 2004. Foreign exchange losses in 2005 were due primarily to the strengthening of the exchange rate of the KZT against the US dollar (the exchange rate of the KZT against the US dollar was 133.77 on 31 December 2005, compared to 130.0 on 31 December 2004).

Other expenses, net

Net other expenses decreased to KZT 9.4 million in 2005, from KZT 12.4 million in 2004, representing a decrease of 24%.

Loss before taxation

Loss before taxation was KZT 1,334.0 million in 2005, from a loss of KZT 992.9 million in 2004, representing an increase of 34%.

Taxation

The Company did not incur any income taxes in either 2005 or 2004, as it operated at a loss in both these years. The Company has unused tax losses available for carry-forward against future taxable income that will expire on an annual basis, beginning from 2008 to 2011.

Net loss

The Company's net loss increased to KZT 1,334.0 million in 2005, from KZT 992.9 million in 2004, representing an increase of 34%.

YEAR ENDED 31 DECEMBER 2004 COMPARED TO YEAR ENDED 31 DECEMBER 2003

The Company commenced processing complex zinc-lead ore at the Kentau Plant in March 2004. In 2003, the Company performed rehabilitation and reconstruction of its facilities and mine development operations. As a result of having no trading activities in 2003, the Company did not generate any revenue and did not incur cost of sales and distribution costs in 2003.

Revenue

Revenue was KZT 333.6 million in 2004, compared to nil in 2003. The lack of revenue in 2003 compared to 2004 was due to the fact that processing of complex zinc-lead ore at Kentau Plant (and, as a result, the subsequent commencement of concentrate sales) only commenced as of March 2004. Consequently, revenue in 2004 reflects operating activities and product sales for nine-and-a-half months in 2004, as opposed to no trading activity or sales in 2003.

Revenue from sales of zinc concentrate constituted 91% of total revenue in 2004, with the balance being derived from sales of lead concentrate in the respective period.

Cost of sales

Cost of sales increased to KZT 639.1 million in 2004, from nil in 2003. The Company did not incur sales costs in 2003, as it only commenced processing and trading activities in March 2004.

Gross loss

Gross loss in 2004 was KZT 305.5 million, as compared to nil in 2003.

General and administrative expenses

General and administrative expenses increased to KZT 388.6 million in 2004 from KZT 165.7 million in 2003, representing an increase of 135%. The overall increase in general administrative expenses in 2004 was mainly a result of the Company trading for nine-and-a-half months in 2004, as compared to no trading activities in 2003. In particular, the change in general and administrative expenses was due to the following elements:

- an increase of 224% in payroll and salary taxes for employees engaged in managerial and administration activities, to KZT 181.2 million in 2004, from KZT 56.0 million in 2003, due primarily to an increase in the average number of these employees; see “— *Labour expenses*” below;
- an increase of 256% in insurance expenses to KZT 27.2 million in 2004, from KZT 7.6 million in 2003; insurance expenses increased as the Company entered a number of insurance policies as it commenced extraction and processing activities in March 2004;
- an increase of 58% in taxes to KZT 26.3 million in 2004, from KZT 16.7 million in 2003;
- a increase of 237% in other general administrative expenses to KZT 43.9 million in 2004, from KZT 13 million in 2003; and
- increases in business trip expenses to KZT 17.2 million in 2004, from KZT 0.05 million in 2003, and in bank charges to KZT 7.3 million in 2004, from KZT 1.1 million in 2003.

Labour expenses. Total payroll and salary taxes expenses for all of the Company’s employees (including employees engaged in mining and processing, as well as in managerial and administration activities) increased by 464% to KZT 315.6 million in 2004, from KZT 56.0 million in 2003.

The increase in total payroll and salary taxes and expenses was mainly due to an increase of 195% in the average number of employees to 825 employees in 2004 (903 employees as at 31 December 2004), compared to an average of 280 employees in 2003 (435 employees as at 31 December 2003) and a general increase in salaries. The increase in the numbers of employees and the resulting increase in labour expenses were due to the commencement of mining and processing activities by the Company in February and March 2004.

Average labour expenses per employee (for all of the Company’s employees) were KZT 315.5 thousand in 2004, compared to KZT 200.0 thousand in 2003.

Distribution costs

Distribution costs were KZT 26.1 million in 2004, as compared to nil in 2003.

Other operating expenses, net

Other net operating expenses were KZT 0.9 million in 2004, compared to KZT 0.3 million in 2003.

Operating loss

Operating loss was KZT 721.1 million in 2004, an increase of 334%, compared to KZT 166.0 million in 2003.

Finance costs

Finance costs were KZT 363.5 million in 2004, as compared to KZT 182.4 million in 2003. This increase was due primarily to an increase in interest expense relating to Bank TuranAlem loans. There was no unwinding of discounts in 2003.

Foreign exchange gain

In 2004, the Company realised foreign exchange gains of KZT 104.1 million, compared to a foreign exchange gain of KZT 69.1 million in 2003, a 51% increase in foreign exchange gain. The foreign exchange gain in 2004 was due primarily to the strengthening of the Tenge against the US dollar in 2004 compared to 2003.

Other expenses, net

Net other expenses were KZT 12.4 million in 2004, as compared to other income of KZT 86.2 million in 2003. This decrease in net other expenses was due primarily to a retroactive decrease in the interest rate applicable under the Company's outstanding borrowings with Bank TuranAlem.

Loss before taxation

Loss before taxation was KZT 992.9 million in 2004, an increase of 414%, from KZT 193.0 million in 2003.

Taxation

The Company did not incur any income taxes in either 2004 or 2003, as it operated at a loss in both these years. The Company has unused tax losses available for carry-forward against future taxable income that will expire in 2011.

Net loss

Net loss was KZT 992.9 million for 2004, an increase of 414%, from KZT 193.0 million in 2003.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2006, the Company's total liabilities exceeded its total assets by KZT 2,994.3 million and as at 31 December 2005, the Company's total liabilities exceeded its total assets by KZT 2,890.8 million. This condition indicates the existence of a material uncertainty which may cast significant doubt in connection with the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of its business. For further information on this uncertainty, see the Auditors' Reports and Notes 2(a) and 2(b) to the Financial Statements appended to this prospectus.

The Company has in the past financed its liquidity requirements, including its on-going operating expenses and capital expenditure requirements, mainly from bank financing, cash at hand and operating cash flows. The Company expects to continue to finance its liquidity requirements from the same liquidity sources, as well as from the proceeds of the Global Offer.

The following table sets out certain information relating to the Company's historical cash flows:

	For the years ended 31 December			For the six months ended 30 June	
	2003	2004 (audited)	2005	2005 (unaudited)	2006 (unaudited)
	(KZT, millions)				
Operating activities:					
Loss before taxation	(193.0)	(992.9)	(1,334.0)	(652.3)	(103.5)
Adjustments for:					
Depreciation and amortization expense	26.7	190.8	253.2	118.0	141.4
(Gain)/loss on disposal of property, plant and equipment	5.4	0.9	4.2	2.4	(12.0)
Effect of change in interest rate	(92.1)	—	—	—	—
Finance costs, net	182.4	363.5	584.4	249.4	300.2
Foreign exchange (gain)/loss related to revaluation of long-term borrowings	(77.9)	(117.5)	41.1	97.1	(166.0)
Operating loss/(gain) before working capital changes	<u>(148.5)</u>	<u>(555.3)</u>	<u>(451.0)</u>	<u>(185.4)</u>	<u>160.1</u>
Increase/(decrease) in trade accounts receivable	(0.1)	(43.1)	42.4	43.4	(9.4)
Decrease/(increase) in other receivables	—	(1.2)	0.3	(10.4)	(16.6)
Increase/(decrease) in prepayments to suppliers	(20.6)	(56.9)	33.8	(310.6)	11.0
Decrease/(increase) in inventory	(73.8)	(443.7)	(43.3)	(23.0)	91.9
Increase in VAT receivable	(160.0)	(147.6)	(146.4)	(66.0)	(87.1)
Increase/(decrease) in trade payables	7.7	35.3	(12.0)	(15.0)	(7.6)
Increase/(decrease) in advances received	—	30.0	39.6	77.0	(54.5)
Increase/(decrease) in other current liabilities	5.7	(2.8)	6.3	21.1	24.6
Increase/(decrease) in taxes payable (other than income tax)	1.0	5.3	(4.9)	0.4	5.1
Cash used in operations	(388.6)	(1,180.1)	(535.3)	(468.3)	117.6
Interest paid	—	(0.3)	(48.6)	(0.3)	(14.3)
Net cash (used in) / from operating activities	<u>(388.6)</u>	<u>(1,180.4)</u>	<u>(583.9)</u>	<u>(468.6)</u>	<u>103.3</u>
Investing activities:					
Increase in investments in short-term investments held-for-sale	—	—	(4,003.8)	—	—
Increase in exploration and development costs	—	(22.2)	(29.6)	(13.8)	(22.7)
Change in ownership of subsidiary	—	(0.2)	—	—	—
Purchases of property, plant and equipment	(1,060.2)	(418.4)	(564.2)	(174.9)	(202.1)
Proceeds from disposal of property, plant and equipment	2.4	0.1	0.6	—	129.5
Decrease/(increase) in advances paid for long-term assets	(35.9)	35.9	—	—	—
Net cash outflow from investing activities	<u>(1,093.8)</u>	<u>(404.8)</u>	<u>(4,597.1)</u>	<u>(188.7)</u>	<u>(95.3)</u>
Financing activities:					
Proceeds from borrowings	1,419.3	1,616.6	5,297.4	642.7	91.7
Principal payments on borrowings	—	—	(157.1)	(0.3)	(54.9)
Net cash inflow from financing activities	<u>1,419.3</u>	<u>1,616.6</u>	<u>5,140.4</u>	<u>642.5</u>	<u>36.7</u>
Net increase/(decrease) in cash and cash equivalents	(63.1)	31.3	(40.6)	(14.8)	44.8
Cash and cash equivalents at beginning of year	101.3	38.2	69.4	69.4	28.8
Cash and cash equivalents at end of year	<u>38.2</u>	<u>69.4</u>	<u>28.8</u>	<u>54.7</u>	<u>73.6</u>

Net cash from/(used in) operating activities

Six months ended 30 June 2006, compared to six months ended 30 June 2005. Net cash inflow from operating activities was KZT 103.3 million for the six months ended 30 June 2006, as compared to a net cash outflow of KZT 468.6 million for the six months ended 30 June 2005, representing an increase of KZT 571.9 million.

The increase in net cash inflow from operating activities resulted primarily from a decrease in loss before taxation to KZT 103.5 million in the six months ended 30 June 2006, from KZT 652.3 million in the six months ended

30 June 2005; a decrease in prepayments to suppliers to KZT 11.0 million in the six months ended 30 June 2006, compared to an increase of KZT (310.6) million in the six months ended 30 June 2005; and a decrease in inventory of KZT 91.9 million in the six months ended 30 June 2006, compared to an increase of KZT (23.0) million in the six months ended 30 June 2005, due to increased production.

These were partially offset by an increase in trade accounts receivable to KZT (9.4) million in the six months ended 30 June 2006, compared to a decrease of KZT 43.4 million in the six months ended 30 June 2005.

2005 compared to 2004. Net cash used in operating activities decreased to KZT 583.9 million in 2005 from KZT 1,180.4 million in 2004, representing a decrease of KZT 596.5 million.

The decrease in net cash used in operating activities was due to an increase in loss before taxation to KZT 1,334.0 million in 2005, as compared to KZT 992.9 million in 2004, a decrease in prepayments to suppliers of KZT 33.8 million in 2005, compared to an increase of KZT (56.9) million in 2004; a decrease in inventory of KZT (43.3) million in 2005, as compared to an increase of KZT (443.7) million in 2004, due to increasing sales; and a decrease in trade accounts receivable to KZT 42.4 million in 2005, compared to an increase of KZT (43.1) million in 2004. These were partially offset by an increase in loss before taxation to KZT 1,334.0 million from KZT 992.9 million in 2004.

2004 compared to 2003. Net cash used in operating activities increased to KZT 1,180.4 million in 2004, compared to KZT 388.6 million in 2003, representing an increase of KZT 791.8 million.

The increase in net cash used in operating activities resulted primarily from an increase in trade accounts receivable to KZT (43.1) million in 2004, as compared to an increase of KZT (0.1) million in 2003; and an increase in inventory to KZT (443.7) million in 2004, as compared to an increase of KZT (73.8) million in 2003. These were partially offset by increases in trade accounts payable and in advances received.

Net cash outflow from investing activities

Six months ended 30 June 2006, compared to six months ended 30 June 2005. Net cash used in investing activities decreased to KZT 95.3 million for the six months ended 30 June 2006, compared to KZT 188.7 million used in investing activities for the six months ended 30 June 2005, representing a decrease of KZT 93.4 million. The increase in net cash used in investing activities primarily resulted from an increase in purchase of property, plant, and equipment to KZT 202.1 million in the six months ended 30 June 2006, compared to KZT 174.9 million in the six months ended 30 June 2005, mainly due to increased purchases of mining equipment, and an increase in exploration and development costs. These were partially offset by proceeds from disposal of property, plant and equipment of KZT 129.5 million in the six months ended 30 June 2006, compared to no such proceeds in the six months ended 30 June 2005.

2005 compared to 2004. Net cash used in investing activities increased to KZT 4,597.1 million in 2005, compared to KZT 404.8 million in 2004, representing an increase of KZT 4,192.3 million. This increase in net cash used in investing activities resulted primarily from significant investments in securities in the amount of KZT 4,003.8 million in 2005. This comprised of purchases of fixed-income securities by the Company which were used by the Company as collateral for its borrowings from Bank TuranAlem, compared to no investments in securities in 2004. In addition, this increase in net cash used in investing activities was also due to an increase in purchases of property, plant, and equipment to KZT 564.2 million in 2005, compared to KZT 418.4 million in 2004, mainly due to the purchases of mining equipment for the Shalkiya Mine and crushing and screening equipment for the Shalkiya Crushed Stone Plant; and a higher increase in exploration and development costs to KZT 29.6 million in 2005, compared to KZT 22.2 million in 2004.

2004 compared to 2003. Net cash used in investing activities decreased to KZT 404.8 million in 2004, compared to KZT 1,093.8 million in 2003, representing a decrease of KZT 689.0 million. This decrease in net cash used in investing activities resulted primarily from a decrease in purchases of property, plant, and equipment to KZT 418.4 million in 2004, compared to KZT 1,060.2 million in 2003, mainly due to the purchases of the Kentau Plant and mining equipment in 2003; and a decrease in advances paid for long-term assets.

Net cash inflow from financing activities

Six months ended 30 June 2006, compared to six months ended 30 June 2005. Net cash from financing activities decreased to KZT 36.7 million in the six months ended 30 June 2006, compared to KZT 642.5 million in the six months ended 30 June 2005, representing a decrease of KZT 605.8 million. The decrease in net cash from financing activities, was primarily a result of lower proceeds from borrowings of KZT 91.7 million in the six months ended 30 June 2006, compared to proceeds from borrowings of KZT 642.7 million in the six months ended 30 June 2005, as well as an increase in principal payments on borrowings of KZT 54.9 million in the six months ended 30 June 2006, compared to KZT 0.3 million in the six months ended 30 June 2005.

2005 compared to 2004. Net cash from financing activities increased to KZT 5,140.4 million in 2005, compared to KZT 1,616.6 million in 2004, representing an increase of KZT 3,523.8 million. The increase in net cash from financing activities primarily resulted from an increase in proceeds from borrowings to KZT 5,297.4 million in 2005, compared to KZT 1,616.6 million in 2004, partially offset by principal payments on borrowings of KZT 157.1 million in 2005, compared to nil in 2004.

2004 compared to 2003. Net cash from financing activities increased to KZT 1,616.6 million in 2004, compared to KZT 1,419.3 million in 2003, representing an increase of KZT 197.3 million. The increase in net cash from financing activities primarily resulted from an increase in borrowings, while no principal payments on borrowings were made in either year under review.

Capital resources

The following table sets out the Company's long-term bank loans and obligations (including current portion shown under current liabilities) as at 30 June 2006, and 31 December 2005, 2004 and 2003:

Lender	Interest rate	Loan Currency	30 June 2006	31 Dec 2005	31 Dec 2004	31 Dec 2003
Bank TuranAlem	12%	KZT	9,011.8	8,456.4	3,052.1	480.9
Bank TuranAlem	12%, LIBOR + (7.1%-8%)	US\$	1,291.4	1,467.4	1,209.3	942.0
Total			<u>10,303.3</u>	<u>9,923.8</u>	<u>4,261.4</u>	<u>2,422.9</u>

The above loans with Bank TuranAlem are secured by means of a pledge over the Company's property, plant and equipment and a pledge over fixed-income securities which were purchased by the Company in 2005 (and were subsequently disposed of; see below under "— Post-balance sheet events"). Under the terms of the Company's loan agreements with Bank TuranAlem, Bank TuranAlem is entitled to request early repayment of the loans at any time and for no particular reason.

Post-balance sheet events. In August 2006, the Company disposed of fixed-income securities, previously used as security for its loans with Bank TuranAlem and used the proceeds of this disposal to repay KZT 4,003.0 million of the outstanding principal amount under the Bank TuranAlem loans. See Note 32 to the Interim Financial Statements.

In August and September 2006, the Company amended certain terms of its loans with Bank TuranAlem, including deferring the maturity of the KZT-denominated tranche of the loans to up to 2013, with quarterly repayments beginning as of 2009, and deferring the maturity of a part of the US dollar-denominated tranche of the loans to 2011 and 2013 with respect to a principal amount of approximately KZT 5,716 million.

In October 2006, the Company completed its merger with its subsidiary Geoinforminvest.

Certain other contractual commitments

The following table sets out the Company's capital and contractual commitments as at 30 June 2006:

	Less than	1-5 years	Over	Total
	1 year	5 years	5 years	
(KZT, millions)				
Asar LLP	2.3	—	—	—
Inter-Marketing LLP	8.9	—	—	—
Kazprom Kyzylorda LLP	6.7	—	—	—
Cheriton Finance Limited	—	997.0 ⁽¹⁾	—	—
Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co., Ltd.	—	137.0 ⁽²⁾	—	—
Total	<u>17.9</u>	<u>1,194.3</u>	<u>—</u>	<u>1,212.2</u>

Notes:

- (1) Equivalent to US \$8,400,000.
- (2) Equivalent to US \$1,154,000.

As of 30 June 2006, the Company had a contractual obligation to supply zinc concentrate to Cheriton Finance Limited to an amount of US \$8.4 million. As of 21 July 2006, the Company entered an agreement to extend this contract with Cheriton Finance Limited for US \$100 million up to 31 December 2008. As of 30 June 2006, the

Company had a contractual obligation to supply lead concentrate to Boertala Mongolian Autonomous Prefecture Alashankau Ji Lin Trade Co., Ltd. with a contract value of US \$1.2 million.

Pursuant to the Talap Contract, the Company is required to finance annually the professional training of the Kazakhstan employees for not less than 1.0% of operating costs. In addition, pursuant to the Shalkiya Contract, the Company is required to finance annually the professional training of the Kazakhstan employees for not less than 0.1% of operating costs. In addition, pursuant to the Shalkiya Contract, the Company is required to accumulate cash in a special bank account in the amount not less than 1.0% of annual operating costs to meet provision for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage. Pursuant to the Talap Contract, it is required to accumulate cash in a special bank account in an amount not less than 1.0% of exploration and annual operating costs (capped at US \$7,767 thousand) to meet provisions for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

Related party transactions

The Group currently has long-term loans of a current aggregate outstanding principal, including interest, and interest in excess of KZT 6.3 billion (US \$49.9 million) with Bank TuranAlem, of which Zhaksylyk Zharimbetov (member of the Issuer's Supervisory Board) is a member of the Board of Directors. For further information on these loans, see “— *Liquidity and Capital Resources — Capital resources*” and “*Risk Factors — Risk relating to the Company's dependence on a limited number of sources of financing*” in this prospectus. For information on other transactions with related parties, see Note 27 to the Annual and the Interim Financial Statements.

Off-Balance sheet arrangements

The Company has no material off-balance sheet arrangements.

Quantitative and qualitative disclosures about market risk

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

Market risk. The Company is exposed to fluctuations in zinc and lead concentrates prices as a result of market conditions and changes in LME quotes. The Company does not currently enter into forward sales, derivative or other hedging arrangements to establish a price in advance for the sale of its future zinc or lead concentrate. As the Group does not currently enter into transactions to hedge against the future price at which its production is sold, the Group can benefit from any increase in zinc and lead concentrates prices, but is not protected against decreases in market prices of zinc or lead.

Currency risk. The Company incurs foreign currency risk on its US dollar denominated sales and on a small part of its outstanding bank loans which is also US dollar denominated. As a result, the Company is exposed to fluctuations in the exchange rate of the Tenge against the US dollar. See above under “— *Factors affecting the Company's financial performance — Exchange rates*”. The Company does not have any hedging arrangements against foreign currency risks.

Interest rate risk. A small part of the Company's outstanding bank loans is at a floating rate, as a result of which the Company is exposed to fluctuations in LIBOR interest rates. The Company does not have any hedging arrangements against interest rate risk.

Credit risk. The maximum exposure to risk of financial instruments such as cash and accounts receivable is reflected in their balance-sheet value.

Fair value of financial instruments. Disclosure of estimated fair values of financial instruments is made in accordance with the requirements of IAS 32 “Financial instruments: Disclosure and presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount for which the instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a part of ShalkiyaZink financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realise in a market exchange from the sale of its full holdings of a particular instrument.

Critical judgements in applying the entity's accounting policies

The Company's accounting policies are integral to understanding the results of operations and financial condition presented in the Financial Statements and notes thereto. The Company's significant accounting policies are described in Note 3 to the Financial Statements. The preparation of the Financial Statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the relevant period. On an on-going basis, Management evaluates its estimates and judgments, including those related to provisions, reserves for insurance claims, the carrying values of property and investments, income taxes and deferred taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions. Certain critical accounting estimates and judgments of the Company with respect to the preparation of its Financial Statements are described in Note 4 to the Financial Statements.

Useful economic lives of property, plant and equipment. The Company's mining and non-mining property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management periodically reviews the appropriateness of assets useful economic lives. 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 Company.

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

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

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

Recent developments

In the months of July, August, September and October 2006, the Company increased its production as set out below:

	<u>July 2006</u>	<u>August 2006</u>	<u>September 2006</u>	<u>October 2006</u>
Ore processed (tonnes, thousands)	37.1	37.0	39.6	41.6

PRINCIPAL AND SELLING SHAREHOLDERS

Group ownership prior to the incorporation of the Issuer

The Company was incorporated in April 2001 under the name LLP Mining and Metallurgical Works Tau-Ken. Upon its incorporation, the Company was wholly-owned by Astana Holding Company, a limited liability partnership established in Kazakhstan and engaged in a range of industries including oil and gas and food processing. At the time, the four current ultimate shareholders of the Issuer, Rifat Rizoyev, Marat Sarkytbayev, Samat Kazymov and Assylbek Abuov, worked with Astana-Holding Company, which was initially established by Mr. Sarkytbayev, who was also acting as the president of that group.

Since then, Messrs Sarkytbayev, Kazymov and Abuov, have been actively engaged in the management of the Company, while the majority shareholder, Mr. Rizoyev, has pursued a career in different companies, including as a Deputy General Manager and then as General Manager of Betpak Dala, a joint venture involved in the uranium mining industry. Mr. Rizoyev is a member of the Supervisory Board of the Issuer (see “*Directors and Senior Management — Supervisory Board*”).

Following a number of changes in the Company’s shareholder structure, and prior to the acquisition of the Company’s entire issued share capital by the Issuer on 20 November 2006, the Company was owned by Denmar Assets Management Inc. (majority shareholder, of which the ultimate beneficial shareholder is Rifat Rizoyev), Polymetall Resources and LLP AgroNefit. See “*Business Description — The Issuer*”.

Group ownership following the incorporation of the Issuer and prior to the Closing Date

From the incorporation of the Issuer on 6 November 2006, until the Closing Date, the share capital of the Issuer was owned in its entirety by the Selling Shareholders (Zinc Investments I B.V., Zinc Investments II B.V., and Zinc Investments III B.V.), all three of which are companies incorporated with limited liability in The Netherlands and the Issuer’s founding shareholders:

- Zinc Investments I B.V., which has its registered office at 2, Martinus Nijhofflaan, 2624 ES Delft, The Netherlands (mailing address of P.O. Box 1007, 2600 BA Delft, The Netherlands), and which prior to the Closing Date owned 18% of the Issuer’s share capital. This is a wholly-owned subsidiary of Frappous Holdings Ltd., a company incorporated with limited liability in the Republic of Cyprus, the entire share capital of which is owned by Marat Sarkytbayev, the Chairman of the Management Board of the Issuer and General Director of the Company, and Samat Kazymov, a member of the Management Board of the Issuer and Business Development Director of the Company.
- Zinc Investments II B.V., which has its registered office at 2, Martinus Nijhofflaan, 2624 ES Delft, The Netherlands (mailing address of P.O. Box 1007, 2600 BA Delft, The Netherlands), and which prior to the Closing Date owned 15% of the Issuer’s share capital. This is a wholly-owned subsidiary of Faurecia Holdings Ltd., a company incorporated with limited liability in the Republic of Cyprus, the entire share capital of which is owned by Assylbek Abuov, member of the Management Board of the Issuer and Deputy General Director of the Company.
- Zinc Investments III B.V., which has its registered office at 2, Martinus Nijhofflaan, 2624 ES Delft, The Netherlands (mailing address of P.O. Box 1007, 2600 BA Delft, The Netherlands), and which prior to the Closing Date owned 67% of the Issuer’s share capital. This is a wholly-owned subsidiary of Nicomatic Ventures Ltd., a company incorporated with limited liability in the Republic of Cyprus, the entire share capital of which is owned by Rifat Rizoyev, a member of the Issuer’s Supervisory Board.

All shareholders of the Issuer have equal voting rights.

Selling Shareholders

Each of the Selling Shareholders is offering for sale a number of Shares in the form of Firm GDRs to be delivered on the Closing Date and has agreed pursuant to the Over-allotment Option to make available to the Managers for sale in the Global Offer an additional number of Shares in the form of Over-allotment GDRs, as follows:

- Zinc Investments I B.V.: 45,000 Shares in the form of Firm GDRs (or 3.21% of the Firm GDRs) and up to 37,800 Shares in the form of Over-allotment GDRs;
- Zinc Investments II B.V.: 37,500 Shares in the form of Firm GDRs (or 2.68% of the Firm GDRs) and up to 31,500 Shares in the form of Over-allotment GDRs; and

- Zinc Investments III B.V.: 167,500 Shares in the form of Firm GDRs (or 11.96% of the Firm GDRs) and up to 140,700 Shares in the form of Over-allotment GDRs.

The following table sets out, in so far as it is known to the Issuer, the interests in Shares beneficially held by persons who are directly or indirectly interested in 3% or more of the Issuer's issued share capital as at the date of this prospectus and as adjusted to reflect the sale of Shares in the form of GDRs pursuant to the Global Offer (see also under "*Group ownership following the incorporation of the Issuer and prior to the Closing Date*").

	After the Global Offer					
	Prior to the Global Offer		Assuming no exercise of the Over-allotment Option		Assuming full exercise of the Over-allotment Option	
	Number of Shares	% of issued share capital	Number of Shares	% of issued share capital	Number of Shares	% of issued share capital
Zinc Investments I B.V. ⁽¹⁾ . . .	810,000	18%	765,000	13.54%	727,200	12.9%
Zinc Investments II B.V. ⁽²⁾ . .	675,000	15%	637,500	11.28%	606,000	10.7%
Zinc Investments III B.V. ⁽³⁾ . .	3,015,000	67%	2,847,500	50.40%	2,706,800	47.9%

Notes:

- (1) The ultimate beneficial shareholders of which are Marat Sarkytbayev and Samat Kazymov.
- (2) The ultimate beneficial shareholder of which is Assylbek Abuov.
- (3) The ultimate beneficial shareholder of which is Rifat Rizoyev.

DIRECTORS AND SENIOR MANAGEMENT

The Issuer

The Issuer is a public company with limited liability (*naamloze vennootschap*), incorporated under the laws of The Netherlands.

Following the Issuer's incorporation, its shareholders established its Supervisory Board and Management Board and appointed their respective members.

Supervisory Board

The Supervisory Board is charged with the supervision of the Management Board and the general course of affairs of the Issuer and its business. All members of the Supervisory Board are appointed and/or dismissed by the General Meeting of the Issuer's shareholders. Appointment takes place upon nomination and proposal by the Supervisory Board. Such nomination and proposal can be rejected by the General Meeting of the Issuer with an absolute majority of the votes cast representing at least one-third of the issued share capital.

The following table sets out the current members of the Issuer's Supervisory Board:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Appointed to the Board</u>	<u>Expiry of term</u>	<u>Nationality</u>
Graham McCartney.....	1956	Chairman ⁽¹⁾	November 2006	November 2009	UK
Zhaksylyk Zharimbetov	1967	Member ⁽¹⁾	November 2006	November 2009	Kazakhstan
Rifat Rizoyev	1963	Member ⁽²⁾	November 2006	November 2009	Kazakhstan

Notes:

- (1) Non-executive director.
- (2) Non-executive director and major shareholder of the Issuer.

Graham McCartney. Mr. McCartney was born in 1956. He holds an honours degree in Mining Engineering (BSc) from the University of Nottingham (1979) and a masters degree in Mineral Production Management (MSc) from the Royal School of Mines of the Imperial College, London (1982). Mr. McCartney started his career in mining in 1979 on the Copperbelt in Zambia before moving to the gold industry with Goldfields of South Africa in 1984. He then joined BP's mining business in London, as Divisional Manager for the Mineral Economics and Business Development divisions, where he helped grow the business, prior to its acquisition by Rio Tinto in 1989. Since January 2005, Mr. McCartney has been Managing Director of GMac Consulting, an independent metals and mining consultancy providing industry and strategic advice to a number of UK financial institutions. Prior to this, he worked for the past 15 years in senior managerial positions within the mining finance sector, as a Director of ING Barings and as an Associate Director of Warrior International, a mining finance firm.

Zhaksylyk Zharimbetov. Mr. Zharimbetov was born in 1967 in the town of Kyzylorda, Kazakhstan. In 1992, he graduated from the Moscow Management Institute with a degree in Construction Engineering Economics. Since October 2005, he has been working as a member of the Board of Directors of JSC Bank TuranAlem. He started his career as a director of the Kyzylorda branch of OJSC Kazkomertsbank. He served as President of the OJSC Kostanai Regional Electricity Company, Vice President on Economy and Commerce with OJSC KEGOC, President of investment company Vostok-Zapad (Moscow) and President of OJSC KrasnoyarskKraiUgol (Moscow).

Rifat Rizoyev. Mr. Rizoyev was born in 1963. After qualifying as a professor of Physics at the Kazakh State University in 1985, he taught Physics at the State Ministry of Education until 1989. From then until 1993, he served as Deputy Director of tourism agency OSYUTUR and from 1993 to 1994 as Manager of Madiar, a trading company. From 1994 to 1997, he was Deputy Director of Commerce at FHCK, a public servicing business. He then worked at several companies in the food industry, serving as a Director and Financial Director of Ken Dala Ltd. from 1997 to 1998 and 1998 to 1999, respectively; as a Director of Araltuz Salt Company from 1999 to 2000; and as Deputy Director of Tobol Trade from 2001 to 2002. From 2002 to 2005, he was Deputy Director of OJSC MAA, an international air transportation company. Since May 2005, he has served as General Director of Betpak Dala, a business operating in the uranium industry. All of the positions described above have been within the Republic of Kazakhstan.

The Issuer is currently in the process of selecting and appointing one additional independent Director to its Supervisory Board.

Management Board

The Management Board is charged with the management of the Group. All members of the Management Board are appointed and/or dismissed by the General Meeting of the Issuer's shareholders. Appointment takes place upon nomination by the Supervisory Board. A resolution for the appointment of a Management Board member in accordance with a nomination by the Supervisory Board requires a simple majority of all votes cast, while a resolution by the General Meeting other than in accordance with such nomination requires the same majority, but the votes cast must represent at least one-third of the Issuer's issued share capital. Members of the Management Board may also be suspended by the Supervisory Board, but only for a period not longer than three months.

Members of the Management Board are charged with the operational management of the Issuer, exercising the Management Board's decision-making authority and implementation of the Management Board's decisions.

The following table sets out the current members of the Issuer's Management Board:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Appointed to the Board</u>	<u>Expiry of term</u>	<u>Nationality</u>
Marat Sarkytbayev	1967	Chairman	November 2006	November 2009	Kazakhstan
Samat Kazymov	1964	Member	November 2006	November 2009	Kazakhstan
Henk van Wijlen	1970	Member	November 2006	November 2009	Netherlands
Assylbek Abuov	1971	Member	November 2006	November 2009	Kazakhstan
Ramilya Azelgareyeva	1947	Member	November 2006	November 2009	Kazakhstan

Marat K. Sarkytbayev. Mr. Sarkytbayev, born in 1967, holds a Process-Engineers qualification from the Moscow Institute of Applied Biotechnology (1991) and is currently studying for a Masters degree in Business Administration from the Financial Academy, Higher School of International Business at the Government of Russian Federation in Moscow. 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.

Samat S. Kazymov. Mr. Kazymov, born in 1964, holds a Candidate of Medical Science degree from the Semey State Medical Institute (1990). He has also qualified as an Economist at the Eurasian Market Institute at the Kazakhstan State Academy of Management (1998) and has a Masters degree in Business Administration from the Financial Academy, Higher School of International Business at the Government of the Russian Federation in Moscow (2006). Mr. Kazymov has served as Business Development Director of ShalkiyaZinc since 10 September 2003. Prior to this position, Mr. Kazymov held several similar positions, including Deputy General Director, Vice-President, Head of Management, and Director of several companies, including the JS Scientific-Production Partnership Tolagai, JSC Dalnye Elektropredachi, JSC Altaienergo, Kazakhstan Electricity Grid Operating Company, LLP Kainar and JSC Temir Bank.

Henk van Wijlen. Mr. van Wijlen was born in 1970 in Voorschoten, The Netherlands. He obtained a degree in Supreme Professional Management from Inter College in The Hague in 1994 and has attended various courses in International Tax Law, Accounting and Economics and in various languages including English, German, French, Spanish and Italian. He 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.

Assylbek H. Abuov. Mr. Abuov, born in 1971, holds the qualification of Mechanical-Engineer from Moscow State Technological University (1993) and a Masters degree in Business Administration from Financial Academy, Higher School of International Business at the Government of Russian Federation in Moscow (2006). Mr. Abuov has served as Deputy General Director since 10 January 2005 and prior to that as Commercial Director since 23 July 2001. Prior to his work with the Company, Mr. Abuov held several similar positions, including Deputy Director and Head of Production Department at several companies including LLP Sabek, Infrakos, and OJSC TemirBank.

Ramilya T. Azelgareyeva. Mrs. Azelgareyeva, born in 1947, holds the qualification of Engineer-Economist from the Kazakhstan Polytechnic Institute (1971). Mrs. Azelgareyeva has served as Director of the Company's Financial and Economic Department since 2 May 2002. Prior to this position, Mrs. Azelgareyeva held several similar positions, including Engineer-Economist, Chief Engineer, and Chief Economist at several companies and organisations including the Institute of Kazinalmazzoloto, LLP Geointsentr, and the Ministry of Geology of the Kazakhstan Soviet Socialist Republic. Mrs. Azelgareyeva is also the author of methodological recommendations (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 utilised by subsurface users for the preparation of reports submitted for approval to the State Reserves Committee of Kazakhstan at different stages of geological exploration.

For information regarding directorships on boards of other companies or interests in partnerships currently or previously held by the Issuer's Directors, see "*General Information — Other Directorships*".

The Company

Supervisory Board of the Company

The Company's supervisory board exercises control over its business activities and its management and has general authority to take any decisions that are not within the exclusive powers of the Company's shareholders. The Company's supervisory board was established in November 2006 and consists of three members which are elected by the Company's shareholders (the Issuer) for five-year terms. The following table sets out the current members of the Company's supervisory board (all of which were appointed to the Supervisory Board in November 2006 and their terms are due to expire in November 2011):

<u>Name</u>	<u>Position</u>
Zhaksylyk Zharimbetov ⁽¹⁾	Chairman
Assylbek Bishekov	Member
Samat Kazymov ⁽²⁾	Member, Business Development Director of the Company

Notes:

- (1) Also member of the Issuer's Supervisory Board.
- (2) Also member of the Issuer's Management Board.

For details on the qualifications and experience of Zhaksylyk Zharimbetov and Samat Kazymov, see above.

Assylbek Bishekov. Mr. Bishekov, born in 1965, studied Economics and Management at the Eurasian Market Institute and Mechanics and Applied Mathematics at the Kazakhstan State University. His prior experience includes the following positions with JSC Araltuz: Finance Director from March 1996 to May 1997, Chairman of the Management Board from May 1997 to August 2002, Deputy Vice President from August 2002 to October 2002 and President from October 2002 to November 2003. Since August 2005, he has served as President of the Association of Salt Producers of the Republic of Kazakhstan.

General Director of the Company

The Company is managed by its General Director, Marat K. Sarkytbayev, who is elected by the Company's shareholders (the Issuer). The General Director is in charge of directing the Company's day-to-day business management and is authorised to appoint the Company's senior management (see below).

Senior management of the Company

The following senior managers are in charge of the Company's management (including day-to-day management):

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>
Marat Sarkytbayev	1967	General Director
Samat Kazymov	1964	Business Development Director
Assylbek Abuov	1971	Deputy General Director
Marat Makhambetov	1955	Technical Director
Ramilya Azelgareyeva	1947	Financial and Economic Department Director
Gulzhakhan Aznabakiyeva	1965	Chief Accountant
Sietzhan Kambarov	1948	Director of the Kentau Plant
Meirambek Kunpeisov	1959	Acting Director of the Shalkiya Mine
Alexandr Avdeev	1947	Chief Geologist
Mira Akhmetova	1953	Chief Ecologist
Beibit Akhmamabetov	1960	Chief Surveyor
Erkin Dzhurabekov	1954	Deputy Chief Engineer on Mining

Each member of the Company's Supervisory Board and senior managers can be contacted at the Company's offices at 236A Bogenbai Batyr Street, Almaty, 050026, Kazakhstan.

Marat K. Sarkytbayev, General Director. See above.

Samat S. Kazymov, Business Development Director. See above.

Assylbek H. Abuov, Deputy General Director. See above.

Marat A. Makhambetov, Technical Director. Mr. Makhambetov, born in 1955, holds the qualification of Process Engineer on Automation from the Kazakhstan Chemical — Technological Institute (1972), where he obtained a degree in Technical Science. Mr. Makhambetov has served as Technical Director since 3 September 2003. Prior to this position, Mr. Makhambetov held several similar positions, including Head of Instruments Department and Head of Data-Processing Centre at several companies, including Shymkent Lead Plant and JSC Yuzhpolimetall.

Ramilya T. Azelgareyeva, Financial and Economic Department Director. See above.

Gulzhakhan A. Aznabakieva, Chief Accountant. Mrs. Aznabakieva, born in 1965, holds the qualification of Engineer-Economist from the Almaty Institute of National Economy (1991) and is a Certified International Professional Accountant. Mrs. Aznabakieva has served as Chief Accountant since 18 May 2001. Prior to this position, Mrs. Aznabakieva held several similar positions, including Assistant Auditor, Accountant and Chief Accountant at several companies and organisations including the Republican Commercial Creative Association Klass, the collective enterprise Mekhelektromontazh, OJSC Khimmontazh and LLP Tsentr AuditKazakhstan.

Sietzhan B. Kambarov, Director of Kentau Plant. Mr. Kambarov, born in 1948, holds the qualification of Mechanic-Concentrator from Kentau Mining-Metallurgical College (1969). Mr. Kambarov has served as Director of Kentau Plant since 19 September 2005. Prior to this position, Mr. Kambarov held several similar positions, including Flotation Specialist, Senior Supervisor and Commercial Director at several companies, including Otan Kentau, LLP Alkan, and LLP Inkar Dala.

Meirambek Z. Kunpeisov, Acting Director of Mine. Mr. Kunpeisov, born in 1959, holds the qualification of Mining-Technician from the Kentau Mining-Metallurgical College (1982), a specialisation of Civil Engineering from the Karatau Polytechnic Institute (2002) and a specialisation of Economics from the Tashkent Faculty of Economy Education (1991). Mr. Kunpeisov has served as Acting Director of Mining since 28 August 2006. Before this, Mr. Kunpeisov served as Chief Engineer of Shalkiya Mine since 25 December 2003 and Head of Mining-Capital Operations since 25 November 2003. Prior to his work with the Company, Mr. Kunpeisov held several similar positions, including Head of Shaft-Construction Management and Head of Mining Management at several companies, including JSC Otrar and Gydropetsstroj.

Alexandr R. Avdeev, Chief Geologist. Mr. Avdeev, born in 1947, holds the qualification of Mining Engineer-Geologist from the Frunze Polytechnic Institute (Kyrgyzstan) (1965). Mr. Avdeev has served as Chief Geologist since 2 September 2005. Prior to this position, Mr. Avdeev held several similar positions, including deputy chief geologist, deputy head of subsurface protection inspection, and Deputy Head of Mining-Geological at several companies, including Khaidarkhan Mercury Industrial Complex in Kyrgyzstan and OJSC Kyrgyzaltyn.

Mira K. Akhmetova, Chief Ecologist. Mrs. Akhmetova, born in 1953, holds the qualification of Chemist from the Kazakhstan State University (1978), and is qualified to teach chemistry. She has a state license to conduct environmental protection design and standardisation, issued by the Ministry of Environmental Protection of Kazakhstan (2004). Currently, Mrs. Akhmetova lectures on Environmental Engineering at the Kazakhstan State Architecture and Construction Academy and has written a number of publications concerning standardisation of protection of the environment. Mrs. Akhmetova has served as Chief Ecologist since 3 October 2005. Prior to this position, Mrs. Akhmetova held several similar positions, including Divisional Manager, Chief Specialist, and Head Scientific Research Officer at several companies and organisations, including the Department on Research of Chemical-Technological Problems at the Kazakhstan State Design and Scientific Research Institute of Consumer Services, the firm Kazkontractara of JSC Kazkontract and the Environment Protection Department of the State Scientific-Production Association of Applied Ecology Kazmechanobr.

Beibit U. Akhmambetov, Chief Surveyor. Mr. Akhmambetov, born in 1960, holds the qualification of Mine Engineer-Surveyor from the Kazakhstan Polytechnic Institute (1982). Mr. Akhmambetov has served as Chief Surveyor since 24 November 2003. Prior to this position, Mr. Akhmambetov held several similar positions, including Deputy Chief Design Engineer and Subdivision Surveyor at several companies, including Achisai Polymetallic Industrial complex at Mirgalimsai mine, Achisai Industrial Complex and LLP BaritOilKentau.

Erkin B. Dzhurabekov, Deputy Chief Mining Engineer. Mr. Dzhurabekov, born in 1954, holds the qualification of Mining Engineer from Kazakhstan Polytechnic Institute (1984). Mr. Dzhurabekov has served as Deputy Chief Mining Engineer since 23 May 2001. Prior to this position, Mr. Dzhurabekov held several similar positions,

including Subsurface Timberman, Technical Manager and Deputy Administrator at several companies, including Achisai Industrial Complex Achpolymetall, LLP Kenshi and JSC Shalkiya Ore Production Management.

Directors' terms of service and remuneration

Remuneration of the Issuer's directors. The members of the Issuer's Supervisory Board are appointed by means of, and their terms of office are governed by, appointment letters. The members of the Issuer's Management Board are appointed by means of, and their terms of office are governed by, director service agreements. Members of the Supervisory and the Management Board are elected or appointed for three-year terms.

Under their respective service agreements, members of the Management Board are bound by fiduciary duties, including diligence and due care. They may be terminated upon three months' written notice and may be dismissed at any time and without notice by the Issuer for cause, which includes material or continued breach of performance, disreputable conduct, fraud or dishonesty, conviction of a criminal offence or unsound mind. The formal dismissal must be decided by the General Meeting, while the Supervisory Board has the power to suspend Directors. Members of the Management Board are also subject to non-disclosure obligations regarding confidential information they obtain during the course of their service, in addition to non-compete and non-solicitation provisions which restrict their activities for six months following any termination of service.

Each director service agreement provides for the reimbursement of all reasonable expenses properly incurred by each member of the Management Board in his or her service on the Board and compensation in the form of an annual salary, subject by review of the Supervisory Board, and discretionary performance-based raises.

Under current arrangements, the members of the Issuer's Supervisory and Management Boards are expected to receive aggregate annual remuneration of US \$390,000, including both salary and performance-based bonuses, as well as remuneration with respect to any executive positions held by any of them with the Company or otherwise within the Group. The members of the Issuer's Supervisory and Management Boards are not entitled to additional benefits from the Issuer. In addition, the Issuer has granted Graham McCartney additional remuneration in the form of an annual option to purchase the GDRs up to a maximum value equal to five times his annual salary for each year of his directorship. The granting of options to members of supervisory boards of Dutch companies is not in compliance with the Dutch Corporate Governance Code.

Remuneration of the Company's senior managers. In the year ended 31 December 2005, the aggregate total remuneration paid (including contingent or deferred compensation) and benefits in kind granted to the senior managers of the Company was KZT 66.6 million and the total amount set aside or accrued by the Company in 2005 to provide for pension, retirement or other benefits for its senior managers was KZT 3.5 million. These amounts do not include remuneration of members of the Supervisory and Management Boards of Issuer, which was only incorporated in November 2006.

Directors' and Senior Managers' interests

The table below sets out beneficial interests of Directors and/or Senior Managers in the Issuer's issued share capital as at the date of this prospectus and as adjusted to reflect the Global Offer.

	After the Global Offer					
	Prior to the Global Offer		Assuming no exercise of the Over-allotment Option		Assuming full exercise of the Over-allotment Option	
	Number of Shares	% of issued share capital	Number of Shares ⁽¹⁾	% of issued share capital ⁽¹⁾	Number of Shares ⁽²⁾	% of issued share capital ⁽²⁾
Marat Sarkytbayev & Samat Kazymov ⁽¹⁾	810,000	18%	765,000	13.54%	727,200	12.9%
Assylbek Abuov ⁽²⁾	675,000	15%	637,500	11.28%	606,000	10.7%
Rifat Rizoyev	3,015,000	67%	2,847,500	50.40%	2,706,800	47.9%

Notes:

- (1) Together, indirectly through Zinc Investments I B.V., of which they are the ultimate shareholders.
- (2) Indirectly through Zinc Investments II B.V., of which he is the ultimate shareholder.

Save as set out above, following the Global Offer, none of the Senior Managers will have any ownership interests in the Issuer's or any of its subsidiaries' share capital.

Corporate governance

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 English text of the Dutch Code is available at the following website: <http://www.corpgov.nl/page/downloads/CODE%20DEF%20ENGELS%20COMPLEET%20II.pdf>.

On 31 December 2004, a Ministerial Decree (the “**Decree**”) became effective requiring certain listed public companies with limited liability to report in their annual financial statements regarding their compliance with the Dutch Code and provide explanations for non-compliance. In compliance with the Decree, the Issuer intends to provide in its financial statements as to the extent of its compliance with the Dutch Code and reasons for any non-compliance (if applicable).

The Dutch Code applies to all companies whose registered office is in The Netherlands and whose shares or depositary receipts are officially listed on a government recognised stock exchange (including foreign stock exchanges, such as the London Stock Exchange).

Since the Issuer was incorporated shortly before Admission of the GDRs, as at the time of Admission, the Issuer is not fully compliant with the Dutch Code. However, the Issuer’s Supervisory Board has indicated that the Issuer generally subscribes to the principles promulgated by the Dutch Code and that the Supervisory Board intends to implement the Dutch Code best practice provisions to the extent possible and relevant for the Issuer. The Issuer has started to implement the principles and provisions of the Dutch Code and will take any further steps it considers appropriate to implement the Dutch Code.

Currently, the following rules have been implemented in the Issuer’s Articles of Association or the regulations of the Management Board:

- Establishment of a three-member Audit Committee by the Supervisory Board.
- Three-year terms of service for members of the Supervisory Board and the Management Board.
- Appropriation of profit and proposal to distribute dividends are subject to approval by the General Meeting of shareholders.
- Management Board members may not be members of the Supervisory Board of another listed company.
- The Management Board requires the approval of the Supervisory Board for transactions involving a conflict of interest with one or more members of the Management Board.
- The remuneration of the Supervisory Board is determined by the General Meeting and is independent of the Issuer’s financial results.
- The General Meeting may pass a resolution to reject the nomination or cancel the appointment of members of the Management Board or the Supervisory Board, with a majority representing at least one-third of the issued share capital.
- The Issuer’s external auditor is appointed by the General Meeting.

In addition to the above corporate governance rules, other rules are under consideration by the Issuer, such as the establishment of various committees as contemplated in the Dutch Code. The Issuer has already established an Audit Committee.

Audit Committee. The Audit Committee oversees the Issuer’s compliance with requirements set forth in the applicable laws and regulations (Dutch laws, IFRS) and corporate governance guidelines (Dutch Code). The Audit Committee, which consists of three members, was established by, and operates in accordance with, a charter approved by the Issuer’s Supervisory Board. The Supervisory Board appoints the chairman and the additional members of the Audit Committee, all of which must be non-executive and at least one of which must be independent. The Audit Committee may delegate to each of its members the exercise of particular competences. The Audit Committee holds at least four meetings per year and may also convene extraordinary meetings when deemed necessary.

The Audit Committee is responsible, among other things, for supervising the activities of the Management Board with respect to:

- the operation of internal risk management and control systems, including supervision of the enforcement of relevant legislation and regulations, and supervising compliance with codes of conduct;
- the reporting of financial information by the Issuer, including choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimates in the annual accounts, forecasts, work of internal and external auditors;
- compliance with recommendations and observations of internal and external auditors;

- the role and functioning of the internal audit department;
- the Issuer's tax planning policy;
- relations with the external auditor, including, in particular, independence, remuneration and the provision of non-audit services;
- the Issuer's financing; and
- applications of information and communication technology.

The Audit Committee also acts as the principal contact for the external auditors with respect to their reporting of any irregularities.

The Audit Committee is currently comprised of three Supervisory Directors of the Issuer: Zhaksylyk Zharimbetov (Chairman of the Audit Committee), Graham McCartney and Rifat Rizoyev (who is the majority shareholder of the Issuer). Following the appointment of an additional independent Director on its Supervisory Board, the Issuer intends to appoint such Director to the Audit Committee.

INDUSTRY OVERVIEW

Overview of the global zinc industry

Background

Galvanising is the predominant use for zinc, accounting for 47% of global zinc usage in all forms in 2004. The next largest use of zinc is in brass, accounting for 16% of total demand, followed by die-casting at 12%. Zinc is also converted into rolled and extruded products (9% of total demand) and used in making oxides and chemicals (10%). In both absolute and percentage terms, galvanising was the fastest growing end use in 2004 with its principal applications being in the construction and auto industries.

According to ILZSG, the construction sector accounted for 45% of all zinc usage in 2004, followed by the transport sector at 25%. The balance of zinc demand was evenly split between industrial machinery, consumer products and various other markets.

Zinc supply

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(tonnes, thousands)			
Global mine production	9,091	9,576	9,601	9,879
Global refined production	9,673	9,893	10,131	10,055
Consumption	9,284	9,649	10,324	10,663
Implied surplus/deficit	364	218	(279)	(663)
LME Price:				
Cash LME price (US \$/tonne)	778	827	1,048	1,383
Cash LME price (US \$/pound)	35	38	48	63

Source: ILZSG.

In 2005, global zinc mine production reached 9.9 million tonnes, a 2.8% increase compared to 2004. China, the largest producer in the world, accounted for 25.3% of this total production, followed by Australia (13%), Peru (11%) and Canada (7%). Europe and Kazakhstan accounted for 10.5% and 4.0% of global output, respectively. Ten years earlier, in 1995, China mined 15% of global output, each of Canada and Australia produced 16% and Europe accounted for 14% of global production.

The increase in output in 2005 compared to 2004 was mainly due to the increase in output in India and China. In China, the 100 thousand tonne-per-year Lanping mine was commissioned in 2005, in addition to several smaller mines. Indian output grew with the completion of the Rampura Agucha mine in Rajasthan with a capacity of 105 thousand tonnes per annum. In Europe, production increases in Finland, Ireland, Russia, Sweden and Greece contributed to an overall increase in European production of 2.5%, compared to 2004. Australian production also increased by 1.8%, in part due to Xstrata's 64,000 tonne per annum Black Star open-pit which was commissioned in February 2005. The largest decrease in production occurred in Canada where production decreased by 16.6% as a consequence of several large mine closures in 2005.

In terms of refined zinc metal production, in 2005, China was the largest producer, contributing 27% of total world output. Europe's share fell to 26%, Canada's to 7% and Japan's to 6%. After a number of significant capacity increases over the past ten years, output in the Republic of Korea increased to 6% of global production in 2005. Ten years earlier, in 1995, 35% of global refined zinc metal was produced in Europe, 15% in China, 10% in Canada and 9% in Japan.

Compared to 2004, global smelters' output fell by 0.8% to 10.0 million tonnes for the first time since 1994 and was mainly due to the closure of several mines in Europe and reductions in output at the Chelyabinsk Smelter. The effect of declining capacity in Europe, however, was to an extent offset by increased capacity in China and India. ILZSG expects the production capability of current zinc-producing smelters and other commitments to increase from 10.0 million tonnes per annum in 2004 to 11.6 million tonnes per annum in 2007.

In the current zinc market, mining constraints are limiting concentrate supplies while there is strong demand from smelters; as a result, strong prices for zinc are expected to continue over the next two years. The price of zinc has not matched the all-time peaks recorded by copper, primarily due to the high level of zinc stocks and the lag of zinc consumption towards the end of the industrial growth cycle.

However, it is expected that inventories may decline significantly by 2007. By comparison to the period 2001-2003, when prices were depressed, zinc pricing is now relatively high. Current industry focus is on demand for zinc in China (see below), which has been growing at a compound annual rate of 17% since 2000. This has absorbed oversupply. Last year, global consumption exceeded production by 319 thousand tonnes, the first market deficit since 1999.

Nevertheless, mine producers in particular remain cautious and have been unwilling to jeopardise current profitable conditions by renewing suspended operations. The result is a supply-side deficiency, with concentrate stocks diminished.

Certain custom smelters (both in the West and in China) have been unable to maintain high production rates due to a shortage of feedstock. Thus, the deficit has moved through the supply chain to refined zinc. While it is forecasted that concentrate deficits will shrink to negligible levels by 2007, a zinc shortage is predicted to continue until at least 2008. By the end of 2007, stocks in the United States and Europe are expected to have fallen to three weeks' consumption.

Competition between smelters for concentrate has caused base treatment charges to fall every year since 2001, although total smelter deductions have actually increased since 2003 due to the price escalator component responding to rising zinc prices. The global shortage of zinc concentrate may not be alleviated until 2008, as mines are ramped up in Peru and Bolivia and new mines are started in Uzbekistan, Australia and Indonesia.

Zinc demand

Global demand for zinc in 2005 grew by 3.2% to 10.7 million tonnes. High zinc consumption growth in China, India and Korea was partly offset by a decline in demand in Europe, the United States and Japan. China was the highest consumer of refined zinc metal, with a 27% share of global consumption, closely followed by Europe with a 25% share. Other important consumers included the United States, Japan and India with 11%, 6% and 4%, respectively. This distribution of consumption represents a significant shift compared to 10 years ago. In 1995, Europe was the largest consumer with one third of the market, the United States represented 16% and China and Japan 10% each. India's share was 3% in 1995.

The 18% rise in consumption in China resulted from an increase in demand for galvanised steel for use in infrastructure developments. Roads, railways, power and construction projects, including the facilities required for the 2008 Olympics, have been the key drivers of growth. Chinese automobile and white goods production has also continued to expand at a high rate. China is expected to continue to be the principal consumer of zinc although the rate of growth of its consumption is expected to slow in the next few years. In 2005, demand in the United States fell 6.0% compared to 2004, due to a decrease in automobile sales, especially the SUV sector, and due to the fact that the country's industry had overstocked supplies of galvanised steel in 2004. Zinc usage in Europe also declined by 4.0% for similar reasons. An increase in car production in Japan to in excess of 9.0 million units for the first time in the country's history, helped offset reduction in Japanese demand. This reduction was due to procurement by Chinese consumers of galvanised steel from Chinese producers instead of from Japanese companies which would have otherwise exported to China.

According to ILZSG, global refined zinc consumption will reach 12.3 million tonnes by 2010. The growth in Asia this year is expected to be partly offset by consumption decreases in the United States and Europe, due to weaker industrial production in those regions.

Prices and costs

Refined zinc is traded on the electronic market of the LME. It is also sold directly to consumers. Constraints in zinc concentrate supply and rising demand from China have resulted in falling stocks with the result in 2006 that spot treatment charges turned negative for the first time ever. As a reflection of the current imbalance between zinc mining and metal capacity, annual zinc treatment charges fell from an estimated US \$210 per tonne in early 2000 to US \$115 per tonne in 2005 as smelters competed for scarce concentrate feed stock. Treatment charges are the fees charged by smelting operators to convert zinc concentrate to metal.

Market outlook

Balance between supply and demand in the zinc market has been shifting significantly over the last few years. In 2002 and 2003 slower zinc demand in the United States and other developed countries was not offset by adequate reductions in supply, leading to a global surplus of 364 kt and 218 kt, respectively. Rise in global stocks resulted in historically low zinc prices of US \$778 per tonne in 2002 and US \$827 per tonne for 2002 and 2003, respectively. The position in terms of global supply reversed in 2004 and 2005 when decreased output by zinc

producers, increased demand from China and a recovery in consumption of zinc in the United States led to a significant deficit in refined zinc supply. As a result, the average cash settlement price for zinc in 2005 was 32% higher than in 2004, 67% higher than in 2003 and 77% higher than in 2002. Reported stock levels declined to deficits of 279 kt in 2004 and 663 kt in 2005. The market is expected to return to balance in 2007 as forecasted by many analysts, including ILZSG, but until then low stock levels should support high zinc prices.

LME zinc metal prices increased from US \$0.83 per pound in December 2005 to almost US \$0.95 per pound in January 2006 and to a high of US \$1.08 per pound on 7 February — well above the previous record of US \$0.95 per pound in March 1989. While visible LME stocks of slab zinc at 334,050 tonnes are still sufficient compared with copper, inventories have declined by 47% since late 2004.

Many US and European smelters are sold out, given a shortage of zinc concentrate, and users may become increasingly reliant on LME stocks. China's plans for significant investment in high voltage electric power lines are expected to add to galvanised steel demand. With another large deficit projected for the 2006 global supply/demand balance (about 400 thousand tonnes), most price forecasts for zinc point to an average price at above US \$1.0 per pound in 2006-07. The market is expected to return to balance in 2007 as forecasted by many analysts, including ILZSG, but until then low stock level should support high zinc prices.

The information contained in this global overview was derived from publicly available information, including press releases and public filings, and mainly from information prepared and published by ILZSG.

The Chinese perspective

According to China's long-term economic and social development targets, GDP per capita in 2010 is expected to double that recorded in 2000. As a result, the average annual growth rate of GDP is forecast to remain above 7%. Along with economic development and improvements in standards of living, demand for lead and zinc in transportation, construction, electric power and other fields is expected to continue to show strong growth.

According to Antaika, a Chinese Information Bureau, the average annual growth rate of zinc consumption in China is projected at 7.6% during the period of 2005-2010, reaching 4.5 million tonnes in 2010. Among the components of consumption, demand for galvanisation is expected to account for 46.2%, demand for copper timber 15.2%, demand for die-casting alloy 14.5%, demand for batteries 12.1%, demand for zinc timber 1.5% and demand for oxides 10.1%. The table below provides key data on the lead and zinc industry in China:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(tonnes, thousands)		
Production	2,300	2,720	2,710
Import	310	470	620
Export	480	280	150
Consumption	2,100	2,750	3,120
Growth Rate of Consumption	18.0	30.9	13.5
Stock	30	160	60
Average Price of Domestic 1# Zinc Ingot (Yuan per tonne).....	8,504	10,747	13,509

Source: ILZSG, Antaika

While smelter capacity can currently meet domestic consumption levels, actual refined metal production is ultimately expected to depend on the supply of raw materials. China has abundant lead and zinc resources, but while high smelter profits have attracted large-scale investment, and smelter capacity has increased significantly, investment in exploration and mine exploitation has been comparatively weak. Current Chinese mining policies and profits tend not to attract the same amount of government funding the establishment of new mines. The result has been a reliance on private funding and industry fragmentation, with some 70% of zinc concentrate being produced by small privately owned mines in China.

As the smelter industry is steadily growing, in recent years the profitability of the lead and zinc industries has only marginally affected mining and investment flows into new mines. According to CNIA, total capital assets invested in the lead and zinc industries in 2005 reached 10.27 billion (US \$1.27 billion). Of this, while capital assets invested in the smelter industry expanded by 63.9% to 6.8 billion Yuan (US \$0.84 billion), capital assets invested in mining and milling grew only by 33.3% to 3.48 billion Yuan (US \$0.47 billion). Hence, while investment in mining and milling has seen significant increases in the last few years, the total investment and growth range has been notably less than in the smelter industry.

Currently there are a limited number of ongoing projects of medium and large sized mines. Due to financial problems, limited time for practical building and the postponement of some planned projects, Antaike estimates that the pace of mine construction will accelerate after 2008. At this pace, mine building cannot keep pace with smelter construction, hence prior to 2008, lead and zinc concentrates output is not likely to match domestic consumption, and particularly smelter demand. China will therefore need to import significant quantities of lead and zinc concentrate. After 2008, along with a greater focus of development on the recycling industry, the pressures on concentrate supply should gradually ease.

Due to the rapid growth of domestic consumption, the Chinese lead and zinc industries are characterised by high levels of growth, increased consumption of resources and pronounced shortages of raw materials. The government's macro-adjustment of policies and market competition forces have encouraged the lead and zinc smelter industries to increase the pace of their technology progress and eliminate outmoded procedures. Along with a number of large vertically-integrated mine-mill-smelter developments (such as BHPB — Lanping), the lead and zinc industries aim to improve their consolidation, leading to progress in the overall structure of these industries. Significant signs of the impacts of this improvement on the raw material supply situation are not expected to appear before 2009.

The information in this section on China was sourced from Antaike and data prepared and published by ILZSG, in addition to publicly available information.

Overview of the zinc industry in Kazakhstan

Kazakhstan was the major lead- and zinc-producing republic of the FSU, mining more than 60% of the lead and 50% of the zinc mined and smelted, and smelting more than 90% of the lead and almost 50% of the zinc mined and smelted in the FSU.

Production facilities were based primarily in eastern Kazakhstan, including several of the largest lead and zinc producing enterprises of the FSU, such as the Leninogorsk, Ust-Kamenogorsk, and Zyryanovsk mining and metallurgical complexes.

Zinc supply

Kazakhstan possesses the second largest confirmed resource base of zinc in the world; however, due to the low quality characteristics of the ore, mining and processing costs are much higher than average on a global scale. The reserves of the Shalkiya Deposit represent approximately 30% of the country's total zinc reserves (*Brook Hunt Report*).

The overall zinc-lead ore base of Kazakhstan includes 83 deposits with two major extractors in the industry, Kazzinc and KazakhMys, integrating the majority of the deposits, mines and concentrators in the country. Another significant producer, NovaZinc, recently sold Akzhal, its zinc-lead ore mines to the Chelyabinsk Smelter.

The following table sets out estimated proven and probable reserves of zinc contained in the largest zinc-lead deposits in Kazakhstan:

<u>Mine</u>	<u>Zinc</u> (tonnes, thousands)
Akzhal	1,022
Karagayli	109
Tishinski	150 ^e
Ridder-Sokolny	690 ^e
Shubinsky	20 ^e
Shaimarden	970
Shalkiya	4,500
Nikolaevsky	488
Yubileyno	180
Artemyevsky	1,920
Belousovsky	228
Irtish	568
Orlovsky	1,023
Maleevsky	3,030 ^e
Grekhovsky	30 ^e
Total	<u>14,928</u>

Source: Brook Hunt Report

Note:

e: Estimate

In 2005, Kazakhstan's mine production declined slightly by 1.3% to 380 thousand tonnes, from 385 thousand tonnes in 2004, which had, in turn, declined by 2.0% from 393 thousand tonnes in 2003. However, the production capacity for 2006 is estimated at 495 thousand tonnes, a 30.2% increase compared to 2005. Concentrate smelted in Kazakhstan totalled 348 thousand tonnes, a 13.7% increase compared to 2004 (306 thousand tonnes) and a 22.5% increase compared to 2003 (284 thousand tonnes). Refined zinc production has consistently increased since 2002 and is predicted to rise to about 400 thousand tonnes per annum in 2008. This is due to the efforts of the Kazakhstan zinc industry to recoup additional value from the additional processing required to produce refined zinc from its bulk concentrates.

Zinc demand

Kazakhstan's consumption of zinc has declined slightly from 35 thousand tonnes in 2003 to 33 thousand tonnes in 2005, but is estimated to increase to 38 thousand tonnes in 2008. The metal is widely used in Kazakhstan's metallurgical industry and accounts for 17% of the overall nonferrous metals industry. The market for zinc concentrates depends on the development of the automobile, cable products, and galvanic technical coatings and alloys industries.

The following table provides information regarding zinc supply and demand in Kazakhstan for the years 2003, 2004 and 2005:

	Kazakhstan Zinc Supply and Demand		
	2003	2004	2005
Domestic Consumption	35	32	33
Zinc Available for export	242	266	305
Smelter Production			
Balkhash		18	51
Leninogorsk	112	108	106
Ust Kamenogorsk	166	172	181
Total Refined production	277	298	338
Secondary feed	5	5	5
Mettallurgical losses	12	13	15
Required from Concentrate	284	306	348
Mine Production			
Akzhal	39	38	26
Karagayli			6
Leninogorsk	77	91	67
Maikainzoloto	1	1	0
Shaimerden			
Shalkiya		9	18
Tekeli	6		
Kazakhmys East	78	66	92
Zyryanovsk	192	179	169
Total mine production	393	384	378
Concentrate smelted domestically	284	306	348
Concentrate available for export	110	79	32

Source: Brook Hunt Report

Market outlook

The outlook for the Kazakhstan zinc industry is affected by two principal factors. The first is that China's zinc refining capacity is expected to exceed its ore mining capability, producing an increased reliance on imported zinc. Since Kazakhstan's lead-zinc ore is usually sold in the markets of Kazakhstan, Uzbekistan, Russia and China, predicted growth in Chinese demand could increase future sales and gross revenues. The second factor is the location of zinc deposits in Kazakhstan. The most conveniently located positions and richest deposits of ores have been mined over the last 10 years, leading to a decline in the range and quality of raw materials since the 1990's. Therefore, the ability of Kazakhstan's zinc producers to increase supply to meet this growing demand from China will significantly affect their future profitability.

The information contained in this overview of the Kazakhstan zinc industry was derived from information prepared and made available by Brook Hunt, as well as publicly available information, including documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan.

REGULATION

Regulation of the Group can be divided into six broad areas:

- regulation in relation to mineral rights;
- regulation in relation to environmental, health and safety matters; and
- anti-monopoly regulation.

Regulation of mineral rights in Kazakhstan

General

In Kazakhstan, all subsoil reserves belong to the State. The MEMR (currently the Competent Authority) on behalf of the State grants exploration and production rights. Subsoil use rights are granted for a determinable period but may be extended before the expiration of the applicable contract and licence (if permitted). Subsoil use rights may be terminated by the MEMR, if the Group does not satisfy its contractual obligations, which include periodic payment of royalties and taxes to the Government and the satisfaction of mining, environmental, safety and health requirements.

Prior to August 1999, subsoil use rights for hydrocarbons and mining sector operations were established by the grant of a licence and the execution of a subsoil use contract. In August 1999, the Government, in an attempt to simplify the procedure, abolished this two-tier process. Subsoil use rights are now established only by means of a subsoil use contract, and no licence is required. The Company holds its subsoil use rights on the basis of subsoil use contracts. The Company's main subsoil use contract is for the Shalkiya Mine and is effective for 45 years (the Shalkiya Contract).

Many of the requirements that were applicable to the licensing procedure are now applicable to subsoil use contracts. The previous regime still applies to subsoil use licences granted before the repeal of the licensing requirement. Under the current regime, subsoil use contract terms are agreed by the parties during a negotiation process. The Government has developed a model contract for subsoil use contracts (the "**Model Contract**"). The terms and conditions of the Model Contract not already governed by a licence or regulated by legislation may be amended by agreement of the parties.

Kazakhstan law recognises the concept of stabilisation and guarantees stability of the terms and conditions of subsoil use rights, even if subsequent legislation provides for less favourable terms and conditions. Likewise, if a contract contains provisions establishing that any modification or amendment requires the parties' consent, changes introduced by subsequent legislation are not automatically applicable unless the parties expressly agree. The application of stabilisation provisions is usually stipulated in the subsoil use contract. Stabilisation protection is not available for certain matters, including environmental and public health protection and defence and national security.

Regulation of subsoil use rights

There have been three main phases of subsoil use regulation in Kazakhstan:

- from Kazakhstan's independence in 1991 to August 1994;
- the licensing-contractual regime from August 1994 to August 1999, which has two sub-phases: (i) August 1994 to January 1996, and (ii) January 1996 to August 1999; and
- the contractual regime, which commenced in August 1999.

The Subsoil Use Law and the 1999 Amendments

The current legal framework for the regulation of subsoil use rights in Kazakhstan was established with the adoption, on 27 January 1996, of Edict No. 2828 of the President of Kazakhstan "Concerning Subsoil and Subsoil Use" (the "**Subsoil Law**"). Under the Subsoil Law, the subsoil and any useful minerals contained therein are owned by the State. In August 1999, the Subsoil Law was amended by Law No. 467-1 "Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsoil and Petroleum Operations in the Republic of Kazakhstan" (the "**1999 Amendments**"). The 1999 Amendments simplified the process of obtaining subsoil use rights by allowing the MEMR to grant these rights contractually, without first having to issue a licence (which was required under the previous regulatory framework). In practice, subsoil use rights are typically granted following a tender process.

The 2004-2005 Amendments to the Subsoil Law

The Subsoil Law was further amended by the Law No. 2-III on “Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Subsoil Operations” dated 1 December 2004 and Law No. 79-3 on “Introduction of Amendments and Additions to Certain Legal Acts on Subsoil Use and Performance of Petroleum Operations in Kazakhstan” dated 14 October 2005 (the “**2004-2005 Amendments**”). The 2004-2005 Amendments provide a pre-emption right to the State in connection with any transfer of subsoil use rights and/or any transfer of the shares or participation interests in a legal entity directly or indirectly controlling another legal entity with subsoil use rights, if the core business of the controlling entity is related to subsoil use in Kazakhstan. This gives the State a right of first refusal in respect of any such transfers on terms “no worse than those offered by other prospective purchasers”. This pre-emption right applies retroactively to all existing contracts, as well as prospectively to future contracts. The 2004-2005 Amendments do not contain detailed procedures which the State must follow in order to exercise its pre-emption right. As a result, the process remains unclear and the State has yet to exercise its pre-emption right pursuant to this provision to date. However, an inter-departmental commission was established by decree to consider the pre-emption right of the State in situations when subsoil use rights and/or the shares or participation interests of any subsoil user are offered for sale and to make recommendations to the Government. It is the Government that will then make a decision whether to exercise its pre-emption right. The decree did not establish detailed guidelines to sellers on the procedures for notifying the commission about transactions that might trigger the State’s pre-emption right or the deadline for the State to exercise this right.

Other provisions in the 2004-2005 Amendments include a requirement that subsoil users purchase goods and services from Kazakhstan producers, provided such goods and services comply with the applicable national and/or international standards; and a prohibition on the purchase of goods and services by subsoil users from foreign organisations where there are comparable Kazakhstan goods and services available.

The 2004-2005 Amendments also create a regulatory regime to enable subsoil users to pledge their subsoil use rights and clarify the legal status of a transfer of pledged rights.

Legal framework for grant of subsoil use rights by the State

The procedure for the granting of subsoil use rights in Kazakhstan is set out in the Resolution of the Government No. 108 dated 21 January 2000 approving “Regulations for Granting the Rights for Subsoil Use.” Under these regulations, there are two ways in which subsoil use rights may be granted: (i) direct negotiations; or (ii) a tender process.

Grant of subsoil use rights through direct negotiations

The MEMR acting on behalf of the State has limited authority to grant subsoil use rights directly without conducting a tender. Direct negotiations may be used: (i) if the applicant already has an exclusive right for obtaining production rights due to commercial discovery made on the basis of a previously granted exploration contract; (ii) in cases where a contract is concluded for the construction and/or operation of underground facilities not connected with exploration and/or production; and (iii) if the applicant is a state company.

Tender of subsoil use rights

In cases where a tender or auction is required, interested parties are given the opportunity to submit their proposals for developing the relevant resources. These proposals should contain basic information about the prospective subsoil user, including its previous activities in Kazakhstan, proposed sources of finances, plans for development of the deposit in question and a forecast of expenses in connection with the development. Following the submission of proposals, the winner of a tender is determined by a tender commission on the basis of a combination of factors, including:

- the proposed date for the commencement of exploration activities and the proposed extent of exploration;
- the proposed dates for the commencement of production and achievement of maximum production levels, as well as the applicant’s ability to extract the maximum amount of zinc from the relevant deposit;
- the initial and subsequent amounts proposed to be paid to the Government, through subscription, production and commercial discovery bonuses, taxation, royalty payments and otherwise;
- the proposed level and timeframe of investments in the deposit, the terms of any financing required to develop the assets and capital investments and the potential for development of the production facilities and social infrastructure of adjacent territories;

- compliance with the requirements for the protection of subsoil and the environment and safety features of production operations in accordance with Kazakhstan law;
- the proposed percentage of Kazakhstan employees out of the total number of employees devoted to the project and planned training and retraining programmes for Kazakhstan employees;
- the proposed percentage of goods and services of Kazakhstan origin to be purchased by the applicant out of the total value of goods and services required; and
- the proposed use and development of advanced technologies and new production equipment and the proposed construction and use of new infrastructure and other facilities.

Subsoil use contracts

The winner of a tender is required to conclude a subsoil use contract with the MEMR in order to carry out its proposed operations on the deposit in question. Subsoil use rights are deemed to be granted and acquired only from the time when a contract is registered. In the event that the winner of a tender fails to submit a draft subsoil use contract to the MEMR within one year, the tender commission must revoke its award. Prior to execution, a contract is subject to legal, economic and tax evaluation and approval by various governmental ministries, including those responsible for the environment and health and safety. Whilst each ministry has a set period to review the contract, in practice negotiation of subsoil use contracts may take several months.

Term of subsoil use contracts

The term of a subsoil use contract depends on the types of subsoil rights granted. Contracts for exploration may have an initial six-year term and may be extended for two additional two-year terms. Contracts for production may be granted for up to 25 years, and contracts for deposits with major and unique reserves for up to 45 years. Combined contracts for exploration and production are granted for a maximum initial term of 31 years, which includes any exploration extensions. A concluded contract may be extended for full development of the commercial deposit.

Terms and conditions of subsoil use contracts

The Subsoil Use Contracts are based on the relevant provisions of Kazakhstan law and the 2001 Model Contract. The 2001 Model Contract grants a subsoil user the right to make use of any products resulting from its activity, including mineral resources specified in the contract, construct structures for production and social purposes within the contract area, hire subcontractors and assign all or part of its rights to third parties or terminate its activities, if such assignment or termination is permitted under the terms of the contract and Kazakhstan law. Subsoil users are obliged to operate using the most efficient methods and technologies based on international standards, use the contract area only for the purposes specified in the contract, comply with all Kazakhstan laws and the terms of the working programme, give preferential treatment to Kazakhstan nationals in hiring new employees and Kazakhstan businesses in purchasing goods and services, invest a certain percentage of their total investments in training programmes for Kazakhstan employees and make timely payment of all applicable taxes and other mandatory payments to the budget.

The main types of payments that a subsoil user is obliged to make to the State under the 2001 Model Contract are: (i) various taxes and fees, including without limitation, corporate income tax, value added tax, excise taxes, excess profit tax, social tax, land tax, vehicle tax, property tax, fees for state registration of legal entities, levies from auction sales; (ii) bonuses, such as subscription and commercial discovery; and (iii) royalties.

The Model Contract provides that any disputes which cannot be resolved through negotiations between the contractor and the Government are to be submitted to the Kazakhstan courts or to arbitration.

Other subsoil use contract terms

Environmental provisions

All subsoil users carrying out subsoil use operations are required to comply with Kazakhstan's environmental and health and safety standards and requirements and to rehabilitate land affected by subsoil use operations. The 2001 Model Contract requires a subsoil user to prioritise environmental considerations, including monitoring the impact of its operations on the environment, limiting desertification and soil erosion and preventing the pollution or exhaustion of subsoil water. Upon the conclusion of mining operations, the contractor is required to conduct an environmental clean-up of the contract area. There are no statutory rehabilitation requirements, rather these obligations are usually established under the relevant subsoil use contract and a liquidation programme. The

Company must set aside 1% of its annual operating expenditures into a liquidation fund for rehabilitation of its sites.

Relinquishment

Relinquishment obligations concerning the relevant contract area are determined in the contract. During the term of the contract for exploration (and prior to any extensions), a certain percentage of the contract area, as stipulated in the related contract, must be relinquished, excluding the territory on which the commercial discovery was made.

Balance Reserves

If subsoil use rights are determined in reference to reserves and the actual reserves prove to be lower than anticipated, the subsoil user is not automatically entitled to an adjustment of the terms and conditions of the contract or reimbursement for expenses incurred. By statute, it is possible to amend a subsoil use contract, if reserves are greater or lower than anticipated.

Taxation of subsoil use rights

Subsoil users operate under special tax provisions set out in subsoil use contracts. Generally, subsoil use contracts establish procedures for the calculation and payment of the following taxes: Excess Profit Tax; special subsoil use payments (bonuses, royalties, and occasionally payments relating to production sharing); and generally applicable business taxes, such as corporate income tax and value added tax (VAT). Prior to their conclusion, all subsoil use contracts are subject to compulsory tax reviews. The purpose of these tax reviews is to confirm that the contractual tax regime is consistent with Kazakhstan tax laws in force when a subsoil use contract is signed. Tax reviews are usually conducted on a contract-by-contract basis, taking into account the specific conditions of a subsoil user. Tax regimes confirmed as a result of tax reviews become part of the contract.

Tax regimes. Since 1995, subsoil users have been taxed under one of two tax regimes:

- The first regime envisages payment by a subsoil user of all generally established taxes and other payments provided in the Tax Code, including Excess Profit Tax. These contracts are referred to as “EPT” contracts.
- The second regime envisages payment by a subsoil user of a share of its production to the Government, in addition to generally established taxes and payments but with certain exemptions. This second regime does not apply to any of the Group’s existing contracts.

“Ring fencing” provisions. Subsoil users operating under more than one subsoil use contract or conducting activities outside the scope of their subsoil use contracts are required to maintain separate records of their tax liabilities with respect to each of the tax regimes established in each subsoil use contract as well as for activities outside the scope of any contract. Consolidation of the results of operations of subsoil use contracts is not permitted for subsoil use taxation purposes.

Tax payments of subsoil users. Taxes and other special payments levied on subsoil users are as follows:

Bonuses. Subscription bonuses are fixed lump-sum payments made by subsoil users for the right to use the subsoil in question. Subscription bonuses are determined in subsoil use contracts and are based on the volume of mineral resources and the estimated economic value of the areas covered by subsoil use contracts. Commercial discovery bonuses are amounts payable to the Government in respect of each commercial discovery of mineral resources within the contract area. Bonuses are based on the estimated value of the mineral resources identified. For information on bonuses payable by the Company under the Subsoil Use Contracts, see “*Business Description — The Subsoil Use Contracts*”.

Royalties. Royalties are calculated and paid separately for each type of mineral resource extracted. Royalties may be paid either in cash or in kind (i.e., transfer of the resource). Royalty payments are determined as a percentage of the volume of the extracted resources and may be based on either a flat rate or a sliding scale. For information on royalties payable by the Company under the Subsoil Use Contracts, see “*Business Description — The Subsoil Use Contracts*”.

Excess Profit Tax. Excess Profit Tax is assessed on profit, after taking a deduction for corporate income tax, and is paid separately with respect to each subsoil use contract. For contracts signed before 1 January 2004, the Excess Profit Tax rate is dependent on the internal rate of return. The rate of tax rises progressively from 0% to 30% once the internal rate of return exceeds 20%. For contracts signed after that date, the rate of Excess Profit Tax is determined by the ratio of income to deductions. If this ratio exceeds 20% the rate of tax rises

progressively from 15% to 60%. For information on Excess Profit Tax payable by the Company under the Subsoil Use Contracts, see “*Business Description — The Subsoil Use Contracts*”.

Other taxes. In addition to the above payments, subsoil users are subject to other taxes and obligatory payments under the Kazakhstan tax laws, such as corporate income tax, VAT, property tax and other taxes applicable to legal entities.

The general corporate income tax rate is 30%. Dividends and interest payable to resident and non-resident legal entities are also subject to withholding tax at a rate of 15%, except where the rate is modified by a double-taxation treaty between Kazakhstan and the country of residence of the non-resident in question.

For information on taxes payable by the Company, see “*Business Description — The Subsoil Use Contracts*” and “*Business Description — Taxation of the Company in Kazakhstan*”.

Export duties. All goods, with a few exceptions, are exempt from customs duties when exported from Kazakhstan. Certain restrictions and licensing requirements may apply to the export of goods from Kazakhstan.

The MEMR and other regulatory authorities

General

The State plays three roles in the management of the subsoil. Firstly, the Government is responsible for organising and managing state-owned reserves, outlining subsoil allotments, defining the list of commonly occurring minerals, defining the procedures for the conclusion of contracts, approving model contracts and appointing the “competent authority”. Secondly, the competent authority (currently, the MEMR) has the power to execute and implement subsoil use contracts. Finally, local executive authorities have responsibility for, amongst other things, granting land to subsoil users, supervising the protection of the land and participating in negotiations with subsoil users for environmental and social protection.

The MEMR

The MEMR is the Ministry designated by the Government to enter into subsoil use contracts. In addition, the Subsoil Law provides that the MEMR, as the Competent Authority with respect to subsoil use contracts for exploration and production of minerals in general and from technogenic mineral formations, is responsible for:

- organising tenders of subsoil use rights for exploration and production of minerals;
- executing and registering subsoil use contracts;
- monitoring compliance with the terms of subsoil use contracts;
- issuing permits for the transfer of subsoil use rights and registration of transactions involving pledges of subsoil use rights; and
- suspending and terminating subsoil use contracts in accordance with the procedures set forth in the Subsoil Law.

Other regulatory authorities

Other governmental ministries and authorities which regulate aspects of zinc mining operations in Kazakhstan, include:

- the Ministry of Environmental Protection, which is responsible for environmental protection and preservation of mineral resources;
- the Ministry of Industry and Trade, which monitors compliance with the requirement that goods and services are procured through the tender process and from Kazakhstan businesses if such goods and services meet Kazakhstan and international standards;
- the Ministry of Emergency Situations, which, among other things, supervises mining operations;
- various governmental authorities responsible for the approval of construction projects and the use of water and land resources;
- Committee for State Sanitary and Epidemiological Supervision of the Ministry of Public Health, which is responsible for monitoring compliance with health standards;

- the Ministry of Labour and Social Protection of the Population, which is responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the obligations of subsoil users to give preference in hiring, including to employ a certain minimum percentage of, Kazakhstan nationals;
- the governmental agency for standardisation, metrology and certification, which is responsible for testing equipment used for weighing ore and measuring zinc content;
- regional and municipal regulatory authorities, which are responsible for registering properties, pledges and mortgages; and
- national and regional tax authorities.

State pre-emption right

The Subsoil Law, as amended by the 2004-2005 Amendments, provides the State with a pre-emption right to acquire subsoil use rights and participation interests in legal entities holding subsoil use rights and in any legal entity having direct or indirect control over a legal entity having subsoil use rights, if the core business of such controlling legal entity is related to subsoil use in Kazakhstan upon transfer of such rights or interests. This pre-emption right permits the State to purchase any such subsoil use rights and/or participation interests being offered for transfer on terms no less favourable than those offered by other purchasers. The relevant governmental authority has the right to terminate a subsoil use contract if a transaction takes place in breach of this law. These provisions apply both to Kazakhstan and overseas legal entities operating in Kazakhstan. It is unclear whether the right of pre-emption could be exercised in respect of disposals, which have occurred without notice to the relevant authority and whether, for instance, such prior transactions could be unwound.

The Government is aware that Shares will be transferred by the Selling Shareholders under the Global Offer, including pursuant to the Over-allotment Option.

This reorganisation is expected to take place before the end of 2006 and is subject to there not being any legal or regulatory hindrance in Kazakhstan at such time, including the State not exercising its pre-emption right, if applicable.

The State has exercised its pre-emption rights under the Subsoil Law in respect of other companies.

Natural use permits

The concept of a natural use permit (“NUP”) was developed as a means for the State to regulate pollution. A NUP is a special permit that grants a subsoil user a temporary right to pollute the environment, including emissions into the atmosphere and the discharge of waste substances into surface and underground waters. NUPs contain the conditions governing the use of the environment as well as payments associated with such use. The obligation to obtain a NUP arises under subsoil use contracts concluded with the MEMR. Companies using the environment (polluting, discharging waste, etc.) are required to obtain a NUP on an annual basis. Depending on the quantity of emissions into the atmosphere, a NUP is to be issued either by a regional department of environmental protection or by the Ministry of Environmental Protection. Maslikhats together with regional departments of environmental protection establish the environmental fees and amounts payable for waste, emissions and discharges.

In 2003, 2004 and 2005, the Company paid environmental taxes of KZT 0.06 million, KZT 0.8 million and KZT 0.4 million, respectively, to the local environmental authorities.

Water permits

The Water Code dated 9 July 2003 No. 481 is aimed at implementing governmental policy in relation to the utilisation and protection of water resources. The code sets out obligations for the use of water and discharge of certain materials into the water, on the basis of Water Use Permits (or “WUPs”). The Company currently possesses WUPs for its activities at the Shalkiya Mine.

Any of the Company’s WUPs could be withdrawn if the terms of special water use specified in the relevant WUP are breached. Such terms include monitoring the quality of underground water, submission of statistical reports and monitoring reports, compliance with requirements relating to water protection during mining operations and regular checking of equipment. If any of the Company’s circumstances relating to its water use change, (for example, in relation to the drilling of new wells, the quality of underground waters or limits on water extraction), the Company is obliged to agree such changes with the relevant governmental agencies, such as the regional

department of environmental protection, the regional sanitary and epidemiological service, the regional water economy department and Yuzhkaznedra. The term of a WUP may be extended subject to compliance with requirements specified within the relevant WUP.

Enforcement

Article 77-1 of Law No. 160-I “On Environmental Protection” specifies which State officials are responsible for monitoring environmental compliance and enforcing environmental requirements. These officials include the Chief State Inspector, the Deputy of State Inspector and Senior State Inspectors representing the heads and deputy heads of departments and divisions of the Ministry of Environmental Protection. In addition, regional environmental prosecutors have the authority to supervise environmental compliance and initiate judicial proceedings.

Article 77 of Law No. 160-I “On Environmental Protection” authorises the relevant State officials, in their enforcement of environmental protection measures, to:

- inspect facilities and request documents, test results and other materials required for supervisory purposes;
- review the implementation of plans and measures associated with the protection and rehabilitation of the environment, the recovery and use of natural resources, compliance with environmental requirements and the operation and control of purification facilities;
- review compliance with licence conditions and performance of environmental obligations, environmental protection activities, compliance with permits for natural resource consumption and where necessary revoke any such consents or permits;
- submit proposals on performing state ecological expert evaluations and the implementation of any such evaluations. The environmental authorities have the right to require State ecological expertise to evaluate the status of the environmental situation (whether it poses any risks to people, level of contamination, etc.). Based upon the results of these expert evaluations, certain decisions can be taken to improve the environment;
- prohibit the import into Kazakhstan of ecologically hazardous waste and raw materials;
- assess the degree of environmental damage caused as a result of violation of applicable legislation and commence proceedings where necessary; and
- require financial institutions to discontinue financing the construction or operation of facilities or other activities, in violation of environmental rules or without consent of the relevant regulatory authority.

The decisions of relevant environmental protection officers may be challenged in accordance with applicable court procedures.

Statute of limitations on proceedings

The time limit for bringing proceedings for breach of environmental requirements is governed by the general limitation provisions under Kazakhstan law under Article 178 of the Civil Code which provides for a three-year limitation period. This limitation does not apply to criminal prosecutions in connection with breaches of environmental requirements.

Safety, health and the environment

Safety and health

Due to the nature of the Group’s business, much of its activity is conducted at its mining facilities by large numbers of workers, and workplace safety issues are of significant importance to the operation of these facilities. Health and safety practices in Kazakhstan are regulated by Law No. 493-I “On Labour in the Republic of Kazakhstan” dated 10 December 1999, Law No. 314-II “On Industrial Safety at Hazardous Industrial Facilities” dated 3 April 2002, Law No. 430-II “On the Public Health System” dated 4 July 2003 and Law No. 528-II “On Industrial Safety and Labour Protection” dated 28 February 2004. Various governmental agencies have authority in the field of health and safety matters, including the Ministry of Labour and Social Protection of the Population, the Ministry of Emergency Situations and the Committee for State Sanitary and Epidemiological Supervision of the Ministry of Public Health. See also “*Business Description — Environment*”.

Environmental liability

Under Kazakhstan law, if the operations of a company violate environmental requirements or cause damage to the environment or any individual or legal entity, the Ministry of Environmental Protection and its regional departments may suspend or limit these operations and require the company to remedy the effects of the violation. Any company or employee that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. The courts may also impose clean-up obligations on violators in lieu of, or in addition to, fines.

Subsoil use contracts granted or entered into by the MEMR on behalf of the State typically impose environmental obligations. The penalties for failing to comply with these obligations can be substantial.

Environmental protection

The Company has a specialist to monitor compliance with environmental requirements and deal with environmental issues.

For more information on the Company's compliance with environmental requirements, see "*Annex C — Competent Persons' Report — 7. Shalkiya Environment, Health and Safety*".

Anti-monopoly regulation

Under Kazakhstan law, the Committee for the Protection of Competition within the Ministry of Industry and Trade (the "**Competition Committee**") is responsible for the supervision of competition matters relating to the zinc-mining industry. It regulates the competitive behaviour of legal entities that are not natural monopolies and supervises legal entities which hold dominant positions in a particular commodity market.

The Competition Committee maintains a register of legal entities having a dominant position in the market. Under the Law on "Competition and Restriction of Monopolistic Activity" dated 7 July 2006, a legal entity is deemed to occupy a dominant position if its market share is equal to or exceeds a threshold of 35%.

The Competition Committee is responsible for creating and enforcing regulations on mergers, acquisitions, corporate reorganisations and liquidations. The following transactions may be effected only after obtaining written approval from the Competition Committee:

- the creation of a new company (or group of companies) whose market share will exceed 35% of the relevant market;
- a reorganisation, which includes a merger, consolidation or change in the organisational form of a company or a group of companies having a dominant position;
- the acquisition of more than 25% of the voting shares in a company;
- the acquisition or use of more than 10% of the tangible assets of a company;
- the acquisition by a legal entity of rights allowing it to direct the business activities of another company or to perform the functions of its managerial authority; and
- participation by the same legal entity on the executive authorities or boards of directors of two or more companies.

For transactions in any of the last four categories, approval by the Competition Committee is required if the total value of the assets of all persons participating in the relevant transaction or the total volume of goods produced by the entities involved for the preceding financial year is more than 1.5 million times the monthly calculation index (MCI) (US \$13 million).

If any of these transactions is completed without the consent of the Competition Committee, it may be invalidated on the grounds that it creates or strengthens a dominant position of an entity or restricts competition. In addition, the Kazakhstan law provides for civil, administrative and criminal liability for breach of competition laws.

DESCRIPTION OF THE SHARES AND APPLICABLE DUTCH LEGISLATION

The Issuer is incorporated as ShalkyaZinc N.V., a public limited liability company (*naamloze vennootschap*), under the laws of The Netherlands by a notarial deed dated 6 November 2006. The Issuer's statutory seat is in Rotterdam, The Netherlands, and its registered office (where the shareholders' register may be inspected) is at Martinus Nijhofflaan 2, 2624 ES Delft, The Netherlands. The Issuer is registered with the Trade Register of the Chamber of Commerce and Industries under registration number 27293522.

Articles of Association — Company Objectives

Pursuant to section 3 of the Issuer's Articles of Association, the objectives of the Issuer are:

- to directly or indirectly carry on activities related to the industrial production and processing of zinc and lead ore;
- to incorporate, to participate in any way whatsoever, to manage, supervise, operate and promote enterprises, businesses and companies;
- to finance businesses and companies;
- to borrow, lend and raise funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness as well as to enter into agreements in connection with the aforementioned;
- to supply advice and render services to enterprises and companies with which the Issuer forms a group and to third parties;
- to render guarantees, to bind the Issuer and to pledge its assets for obligations of companies and enterprises with which it forms a group and on behalf of third parties;
- to obtain, alienate, manage and exploit registered property and items of property in general;
- to trade in currencies, securities and items of property in general; and
- to perform any and all activity of industrial, financial or commercial nature, as well as everything pertaining to the foregoing, relating thereto or conducive thereto, all in the widest sense of the word.

Depository Receipts and GDRs

According to the Issuer's Articles of Association, Issuer's shareholders may receive depository receipts issued under Dutch law with the Issuer's cooperation. The Articles of Association set out the rights conferred on holders of such depository receipts, including being entitled to attend and address General Meetings and to exercise voting rights pertaining to their shares at these meetings.

These depository receipts mentioned in the Issuer's Articles of Association are issued under Dutch law and according to certain procedures and differ from the GDRs issued by the Depository pursuant to the Deposit Agreement. It cannot, however, be excluded that the GDRs may be treated as depository receipts under Dutch law. Should the GDRs qualify as depository receipts for Shares under Dutch law, their holders will be entitled to all or certain of the rights conferred on holders of depository receipts under Dutch law. In such case, in the event of a conflict between the terms and conditions of the GDRs as provided for in the Deposit Agreement and the rights of holders of depository receipts of Shares under Dutch law, the terms and conditions of the GDR's under the Deposit Agreement shall, to the extent permitted by Dutch law, prevail.

Share capital

Authorised share capital. As at the date of this prospectus, the Issuer's authorised share capital amounted to €225 thousand, divided into 22.5 million Shares each having a nominal value of €0.01 per Share.

Issued share capital. Prior to the Closing Date, the Issuer's issued share capital amounted to €45,000 divided into 4,500,000 Shares issued and outstanding. Following the issue of the Firm Shares on the Closing Date, the Issuer's issued share capital will amount to €56,500 divided into 5,650,000 Shares issued and outstanding.

Form of Shares

The Shares are registered and no share certificates are issued in respect thereof. The Shares have been issued under, and are governed by, the laws of The Netherlands. The Management Board maintains a register in which the names and addresses of all shareholders are recorded, showing the date on which they acquired the Shares, the date of the acknowledgement or notification and the amount paid on each Share. The names and addresses of

those with a right of usufruct or a pledge on Shares are also registered. Each depositary receipt holder is required to give written notice of his address to the Issuer. Extracts from the register are made free of charge on application of a shareholder, a holder of a right of usufruct or a pledgee, insofar as it relates to its rights in a Share.

Issue of Shares and pre-emption rights

Shares are issued pursuant to a resolution of the general meeting of shareholders (“**General Meeting**”) or of another corporate authority designated for that purpose by a resolution of the General Meeting for a fixed period, not exceeding five years. Such designation may be extended, from time to time, for periods not exceeding five years. Unless such designation provides otherwise, it may not be withdrawn.

Upon issuance of Shares, each shareholder has a right of pre-emption in proportion to the aggregate nominal value of its Shares. The Issuer announces the issue of Shares carrying a right of pre-emption and the period in which that right can be exercised by means of a written announcement to all shareholders at the addresses shown in the register of shareholders.

Pre-emption rights may be restricted or waived by means of a shareholders’ resolution. If another corporate authority has been delegated the authority to issue Shares, the General Meeting may authorise such corporate authority to restrict or exclude pre-emption rights for a period of no more than five years. This period may be extended for successive periods not exceeding five years. Unless the authorisation provides otherwise, it cannot be revoked. If less than one half of the Issuer’s issued capital is represented at the General Meeting, a majority of at least two thirds of the votes cast shall be required for a shareholders’ resolution to limit or exclude such right of pre-emption or to make such designation.

Repurchase of Shares and capital reduction

The General Meeting may resolve to reduce the Issuer’s issued share capital in accordance with the relevant provisions prescribed by law. The Issuer and its subsidiaries may repurchase fully paid-in Shares or depositary receipts thereof, provided that they comply with the limitations prescribed by Dutch law and in particular that either no valuable consideration is provided for such repurchase, or provided that:

- the Issuer’s distributable equity is at least equal to the purchase price; and
- the nominal value of the Shares or the depositary receipts in respect thereof to be acquired by the Issuer itself, already held by the Issuer or pledged for the benefit of the Issuer, or which are held by a subsidiary, does not exceed one tenth of the issued share capital of the Issuer.

The acquisition is further subject to certain provisions of Dutch law and the Issuer’s Articles of Association.

In all cases, the Management Board of the Issuer must be authorised by the General Meeting to repurchase its own Shares. The authorisation may be valid for a period of up to eighteen months and must state the maximum number of Shares which may be repurchased, the terms of the repurchase and the purchase price range. Shares held by the Issuer or one of its subsidiaries may not vote or be counted for quorum purposes at General Meetings and are not entitled to distributions of dividends. In calculating the amount of any distribution on Shares, any Shares held by the Issuer shall be disregarded. Furthermore, when issuing Shares, the Issuer is not entitled to subscribe for its own Shares.

Transfer of shares

Any transfer of a registered share requires a notarial deed, to be executed for that purpose before a civil law notary registered in The Netherlands, to which deed those involved in the transfer shall be parties.

Reserves

The obligation to maintain reserves pursuant to the Articles of Association, is only applicable to a legal person if its Articles of Association prescribe so. The Issuer’s Articles of Association do not require the formation or maintenance of reserves.

Under Dutch law, statutory reserves are required in certain cases. If a legal person revalues an asset at a higher amount, such person must include in its balance sheet a revaluation reserve equal to the difference in the book value before and after the revaluation. Revaluation reserves may be converted into share capital.

Supervisory Board

Dutch public companies (N.V.), such as the Issuer, usually have a two-tier board system consisting of a Supervisory Board and Management Board. Each body has different tasks and responsibilities. The Supervisory Board supervises the Management Board's conduct of affairs and the Issuer's general course of business and provides advice to the Management Board. The Supervisory Board is not liable for any conduct of the Management Board, but has its own supervisory responsibilities.

The number of Supervisory Board members is determined by the General Meeting. The Issuer's Supervisory Board consists of at least three members. Where the number of members of the Supervisory Board is less than three, the Supervisory Board must take measures to add members without delay, with due observance of the following process. The Supervisory Board nominates and proposes candidates who are appointed by the General Meeting. Shareholders at the General Meeting may reject a nomination and proposal with a majority of the votes cast representing at least one-third of the Issuer's issued share capital. The General Meeting may at all times suspend or dismiss each and any member of the Supervisory Board. A suspension may be extended one or more times, but may not last longer than three months in total.

Remuneration of the Supervisory Board. The remuneration of the members of the Supervisory Board is determined by the Issuer's General Meeting.

Management Board

The Issuer's Management Board is entrusted with the management of the Issuer. The Management Board consists of at least four members. The Supervisory Board appoints a chairman from the members of the Management Board. The Management Board itself appoints a deputy for the chairman and a secretary.

The Issuer intends to adopt a policy on the remuneration of the Management Board. The policy is expected to be adopted by the General Meeting, upon recommendation of the Supervisory Board.

Management Board members are appointed by the General Meeting. They are appointed for a maximum period of three years and may be re-appointed for an additional period of three years. Appointment must take place upon nomination by the Supervisory Board. A resolution in accordance with a nomination by the Supervisory Board requires a simple majority of all votes cast, while a resolution by the General Meeting other than in accordance with a nomination requires the same majority, but the votes cast must represent at least one-third of the Issuer's issued share capital. Members of the Management Board may also be suspended by the Supervisory Board, but only for a period not longer than three months.

A member of the Management Board may at any time be suspended or dismissed by the General Meeting. The Supervisory Board also has the power to suspend a member of the Management Board. Such suspension can be extended several times, but may not extend a period of three months in aggregate. The General Meeting may revoke a suspension made by the Supervisory Board.

The Management Board may adopt rules regarding the process of holding meetings and adopting resolutions. The Management Board may also appoint staff members with general or limited power to represent the Issuer.

Remuneration. The Issuer's policy on the remuneration of the Management Board is approved by the General Meeting.

Representation of the Issuer by the Management Board. The Management Board, as well as each Management Board member acting solely, may represent the Issuer. The Management Board may appoint officers of the Issuer, with limited power to represent the Issuer. In the event of a conflict of interest between the Issuer and a member of the Management Board, such member is still authorised to represent the Issuer. The General Meeting is authorised at all times to appoint one or more persons to represent the Issuer in a conflict of interest.

Approval of Resolutions

Certain resolutions of the Management Board are subject to approval by the Supervisory Board, including without limitation:

- issues and purchases of Shares and debt instruments issued by the Issuer, or of debt instruments issued by a limited or general partnership of which the Issuer is the general partner, and applications for listing or withdrawal from listing of debt instruments and registered depositary receipts for Shares issued by the Issuer on the official list of any exchange;

- purchases by, or significant increases or reductions in, interests of the Issuer or a subsidiary in the capital of another company, if the value of such interest is greater than the amount determined by the Supervisory Board and confirmed in writing to the Management Board;
- investments requiring an amount equal to at least the amount determined by the Supervisory Board and confirmed in writing to the Management Board;
- proposals to amend the Articles of Association;
- proposals to dissolve the Issuer and applications for bankruptcy and for suspension of payments;
- entry into or termination of a long-term cooperation arrangement by the Issuer or a subsidiary with another legal entity, or as general partner in a limited or general partnership, if such is of material importance for the Issuer;
- proposals to reduce the issued share capital of the Issuer;
- proposals for a legal merger or de-merger;
- entering into material transactions where conflicts of interest arise among the members of the Management Board; and
- entering into transactions between the Issuer and shareholders who hold 10% or more of the Issuer's share capital.

In addition, the following matters require approval by the Issuer's shareholders at a General Meeting:

- transfer of an undertaking or the majority of an undertaking to a third party;
- the acquisition or divestiture by the Issuer or a subsidiary of a participating interest in the capital of a company having a value of at least one-third of the Issuer's assets (according to its latest consolidated balance sheet).
- the entry into or termination of a material long-term cooperation agreement or arrangement.

General Meeting

The Issuer is required to hold an annual General Meeting within six months from the end of its financial year, that is by 30 June of each year. Other General Meetings may be held as often as the Management Board or the Supervisory Board may deem necessary, subject to applicable provisions of Dutch law.

Shareholders and/or holders of depositary receipts representing in the aggregate at least one-tenth of the Issuer's issued share capital may request that the Management Board convene a General Meeting, stating specifically the subjects to be discussed.

Notice of General Meetings is given by the Management Board or the Supervisory Board no later than fifteen days prior to the meeting. The agenda of the meeting must contain at least the topics mentioned in the Articles of Association. As the Issuer has only registered Shareholders, notice of each meeting is sent to the addresses in the register.

Voting rights

Each Share confers the right to cast one vote.

Each Shareholder and each holder of depositary receipts is entitled to attend and address the meeting, and, if voting rights accrue to him or her, to exercise such voting rights. Shareholders and holders of depositary receipts may attend meetings in person or be represented by a proxy authorised in writing.

Adoption of resolutions

To the extent that the law or the Issuer's Articles of Association do not require a qualified majority, all resolutions of the shareholders are adopted by a simple majority of more than half of the votes cast (whereby each Share confers the right to cast one vote). If there is no simple majority of votes on a resolution, a second ballot is taken. If there is a tie in voting, the proposal is deemed to have been rejected.

All voting is carried out orally. However, the Chairman of the General Meeting may decide that voting be carried out in writing.

No voting rights may be exercised for any Share held by the Issuer or a subsidiary of the Issuer, nor for any Share for which the Issuer or a subsidiary of the Issuer holds GDRs. However, beneficiaries of a right of usufruct with respect to Shares owned by the Issuer or a subsidiary are (insofar as they have the voting rights on those Shares) not excluded from exercising such voting rights, if the right of usufruct was created before the Shares were owned by the Issuer or such subsidiary. The Issuer or a subsidiary may not exercise voting rights for a Share in respect of which it holds a right of usufruct.

Adoption of annual accounts

The Issuer's fiscal year is the calendar year. Every year, the Management Board prepares the annual accounts no later than five months from the end of the fiscal year, unless, due to special circumstances, this period is extended by the General Meeting (but such extension may not be longer than six months).

Within the same period, the Management Board also submits the annual report, for review by the General Meeting.

The Supervisory Board is required to prepare a report, which is then distributed to the General Meeting together with the annual report and the annual accounts.

The annual accounts are signed by the Management Board and the Supervisory Board and must be approved by the General Meeting. The annual accounts will be available at the offices of the Issuer for inspection by the Shareholders.

Discharge of the Management Board and the Supervisory Board

The General Meeting may grant full or limited discharge to the members of the Supervisory Board and the Management Board for the performance of their duties and may grant full or limited discharge to the members of the Supervisory Board for the supervision of the management of the Issuer in the fiscal year to which such discharge relates. A release from liabilities pursuant to the Articles of Association does not include any release of the Management Board members and Supervisory Board members from their responsibilities and other liabilities as managers and supervisors under Dutch law (e.g. in the case of a bankruptcy).

Dividends

Allocation of profits accrued in a fiscal year is determined at the General Meeting. Distribution of profits may follow the adoption of the annual accounts, if legally permissible. Shareholders at the General Meeting may resolve to make interim distributions and/or to make distributions at the expense of any reserves of the Issuer. The Management Board may also decide to make a distribution of an interim dividend.

Dutch law limits distributions of profits. In particular, dividends may only be distributed if there is a free reserve (not being a hidden reserve). Distributable equity is calculated by deducting the issued share capital, statutory reserves and reserves pursuant to the Articles of Association from the total equity capital, which is equal to free reserves.

For an interim distribution (not following the annual accounts) to take place, an interim statement of assets is required evidencing compliance with this requirement as referred to in Section 2:105, subsection 4, of the Dutch Civil Code. The Issuer must deposit the statement of assets and liabilities at the office of the commercial register within eight days after the day on which the resolution regarding the interim distribution is published.

For more information regarding the Issuer's policy with respect to dividends, see "*Dividends and Dividend Policy*".

Amendment of the Articles of Association

The Shareholders may resolve at a General Meeting to amend the Articles of Association by a majority vote, provided that their shares represent at least one-third of the issued share capital. A proposal for an amendment of the Articles of Association must be submitted to the General Meeting by the Management Board after having been approved by the Supervisory Board.

When a proposal to amend the Articles of Association is to be made at a General Meeting, the notice of such meeting must state so and a copy of the proposal, must be deposited and made available at the Issuer's office for inspection by the shareholders and the depositary receipt holders, until the conclusion of the meeting.

Liquidation

The Issuer may be dissolved pursuant to a resolution passed by the Shareholders at a General Meeting. A proposal to dissolve the Issuer at a General Meeting must be stated in the notice of such meeting. The balance remaining after payment of the debts of the dissolved Issuer following dissolution shall be transferred to the shareholders in proportion to the aggregate nominal value of the Shares held by each. Dutch laws on liquidation would also be applicable.

Squeeze-out proceedings

If a legal entity holds 95% of a company's issued share capital by nominal value for its own account, Dutch law permits this entity to initiate proceedings to acquire the remaining ordinary shares from their holders. The price to be paid for such ordinary shares will be determined by the Enterprise Chamber of the Amsterdam Court of Appeal. A shareholder who controls an entity's general meeting of shareholders, but holds less than 95% of the ordinary shares, could attempt through a legal merger with another company or by subscribing to additional ordinary shares in the controlled entity (for example, in exchange for a contribution of assets) or through other form of restructuring to raise its interest to 95%.

Significant Ownership of Shares or GDRs

Holders of Shares or GDRs may be subject to reporting obligations under the Disclosure of Major Holdings in Institutions Issuing Securities Act ("**Wmz 2006**") (in effect as of 1 October 2006) and the Act on the Supervision of Securities Trade 1995 (Wet toezicht effectenverkeer 1995) (the "**Dutch Securities Act**"). Pursuant to the Wmz 2006, any person who holds an interest in the capital or voting rights of the Issuer at the time of the GDRs being admitted to trading on the London Stock Exchange, must provide written notice to the Issuer and the Dutch Authority for the Financial Markets ("**AFM**") by means of a standard form (in written or digital form), within four weeks of the GDRs being admitted to listing, unless such person holds less than 5% in the share capital or voting rights of the Company. In addition, any person who, directly or indirectly, acquires or disposes of an interest in the share capital or voting rights of the Issuer must immediately give written notice to the Issuer and the AFM by means of a standard form, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person falls within a different percentage range as compared with the percentage range applicable to the capital interest or voting rights held by such person prior to the acquisition or disposal. The percentage ranges referred to in the Disclosure Act are : 0-5%, 5-10%, 10-15%, 15-20%, 20-25%, 25-30%, 30-40%, 40-50%, 50-60%, 60-75% and 75-95%.

Members of the Management and Supervisory Boards of the Issuer must notify the AFM and the Issuer (a) immediately after the GDRs are admitted to listing on the London Stock Exchange, of the number of shares they hold in the Issuer and the number of votes they are entitled to cast in respect of the issued capital of the Issuer, and subsequently (b) of any change in the number of shares they hold in the Issuer and any change in the number of votes they are entitled to cast in respect of the issued capital of the Issuer immediately after such change, as well as of the number of shares in the capital of the companies affiliated with the Issuer they have at their disposal, and the number of votes they may cast in respect of the issued capital of those companies. In case a member of the Management Board is a legal entity, the above notification obligations will similarly apply to the natural persons determining the day-to-day policies of such entity and supervising the management policy and the general course of affairs thereof.

The Issuer must disclose changes in its issued capital and the votes that can be cast with respect to their shares.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must be taken into account Shares (or depositary receipts for Shares) or GDRs:

- directly held or acquired or disposed of by any person;
- held or acquired or disposed of or indirectly held by such person (e.g. through a company);
- held by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement; and
- that such person or third party directly or indirectly may acquire pursuant to any option or other right to acquire Shares (or depositary receipts for Shares) or GDRs.

Special rules apply to the attribution of Shares (or depositary receipts for Shares) or GDRs that are part of the property of a partnership or other community. A holder of a pledge or right of usufruct in respect of Shares (or depositary receipts for Shares) or GDRs can also be subject to the reporting obligations, if such person has, or can

acquire, the right to vote the Shares or, in case of depositary receipts or GDRs, the underlying Shares. The acquisition of voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if such pledgee or beneficial owner were the legal holder of the Shares (or depositary receipts for Shares) or GDRs.

Insider transactions disclosure obligations

Once the Issuer has made a request for admission to trading on the London Stock Exchange, its insiders within the meaning of Section 47a of the Dutch Securities Act are obliged to notify the AFM if they effect or cause to be effected, for their own account, a transaction in Shares or securities whose value is at least in part determined by the value of the Shares. Insiders of the Issuer within the meaning of Section 47a of the Dutch Securities Act are:

- Members of the Management Board;
- Members of the Supervisory Board;
- Persons who have a managerial position with the Issuer and in that capacity are authorised to make decisions affecting the future development or prospects of the Issuer and who may therefore have access to inside information on a regular basis;
- Spouses, registered partners or life partners of the persons referred to in the first three points above or other persons who live together with these persons as if they were married or as if they had registered their partnership;
- Children of the persons referred to in the first three points above;
- Other relations by blood or marriage of the persons referred to in the first three points above who, on the date of the transaction, have shared a household with these persons for at least one year; and
- Legal entities, trusts within the meaning of Section 1(c) of the Act on the Supervision of Trust Offices, or partnerships:
 - the managerial responsibility for which lies with a person referred to in the first six points above;
 - which are controlled by such a person;
 - which have been incorporated or set up for the benefit of such a person; or
 - whose economic interests are in essence the same as those of such a person.

This notification must be made no later than the fifth working day after the transaction date on a form provided by the AFM. In case a member of the Management Board or Supervisory Board has a duty of notification under the Wmz 2006 and the Dutch Securities Act, a notification to the AFM within the meaning of the Disclosure Act is sufficient for both purposes. The notification obligation within the meaning of section 47a of the Dutch Securities Act does not apply to transactions based on a written discretionary management agreement (*overeenkomst van lastgeving*) with an investment manager (*vermogensbeheerder*) as described in section 8 of the Dutch Market Abuse Decree (*Besluit Marktmisbruik*). The notification pursuant to section 47a of the Dutch Securities Act is required when the value of the transactions executed for that person's own account, together with the transactions carried out by the persons associated with that person, reach or exceed EUR 5,000 for the calendar year in question.

Non-compliance with the reporting obligations under the Wmz 2006 or the Dutch Securities Act is an economic offence and could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with the reporting obligations under the Wmz 2006 may lead to civil sanctions.

TERMS AND CONDITIONS OF THE GDRS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the GDRs, and will be endorsed on each GDR certificate:

The GDRs are each issued in respect of one-tenth of one Share of the Issuer pursuant to and subject to the Deposit Agreement in respect of the “Regulation S Facility” and the “Rule 144A Facility”. Pursuant to the provisions of the Deposit Agreement, the Depository has appointed ING Securities Services as Custodian (the “**Custodian**”) to receive and hold on its behalf any relevant documentation respecting certain Shares which are for the time being deposited with and held by the Custodian or its agents on behalf of the Depository pursuant to the terms of the Deposit Agreement and such other Shares and securities received by the Depository or the Custodian in respect thereof and held pursuant to the terms of the Deposit Agreement (the “**Deposited Shares**”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “**Deposited Property**”). The Depository shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “**Conditions**”), references to the “Depository” are to The Bank of New York and/or any other depository which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to ING Securities Services or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of Amsterdam or such other location of the head office of the Custodian in The Netherlands as may be designated by the Custodian with the approval of the Depository (if outside the city of Amsterdam) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

Only Regulation S GDRs are being offered pursuant to the Global Offer.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and, in the event that Rule 144A GDRs are subsequently made available, by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depository maintained for such purpose (the “**Register**”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depository and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein, but which are defined in the Deposit Agreement, have the meanings ascribed to them in the Deposit Agreement.

Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Issuer or Depository. However, the Deed Poll executed by the Issuer in favour of the Holders provides that, if the Issuer fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement, as if it were a party to the Deposit Agreement and was the “Depository” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depository is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.

1 Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depository shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depository may reasonably require, at the specified office of the Depository or any Agent accompanied by:

- (i) a duly executed order (in a form approved by the Depository) requesting the Depository to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or The Netherlands of the Depository or any Agent, or to the order in writing of, the person or persons designated in such order;

- (ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;
- (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and
- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (a) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered during the Distribution Compliance Period (such term being defined as the 40-day period beginning on the latest of the commencement of the Global Offer, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over-allotments) in respect of surrendered Regulation S GDRs, or (b) in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to, or evidence of, a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in The Netherlands of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions

to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is not a US person (as defined in Regulation S under the US Securities Act of 1933, as amended (the “Securities Act”)), is located outside the United States and will comply with the restrictions on transfer set forth under “Transfer Restrictions”.

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (“QIB”)) or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under “Transfer Restrictions”.

- 1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or global Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).
- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Issuer (or any agent of the Issuer recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Issuer to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release.
- 1.8 Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the “**Pre-Releasee**”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate.
- 1.9 The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Issuer, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) of Condition 1.8 above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any

Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

2 Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs, if it has been notified by the Issuer in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a US Securities Exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Issuer is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Issuer) restrict the withdrawal of Deposited Shares where the Issuer notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Issuer's constitutive documents or would otherwise violate any applicable laws.

3 Transfer and Ownership

The GDRs are in registered form, each corresponding to one-tenth of a Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Issuer as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "US Securities Act"). Prior to expiration of the Distribution Compliance Period, no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the US Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the US Securities Act (each a "QIB") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (i) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (ii) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4 Cash Distributions

Whenever the Depositary shall receive from the Issuer any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Issuer) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert

the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5 Distributions of Shares

Whenever the Depositary shall receive from the Issuer any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall after consultation with the Company (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6 Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Issuer any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine after consultation with the Company to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7 Rights Issues

If and whenever the Issuer announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary after consultation with the Company shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be

the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in EUR or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems after consultation with the Company any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Issuer, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary after consultation with the Company (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary after consultation with the Company as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the “**Primary GDR Rights Offering**”), if authorised by the Issuer to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in EUR or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).
- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder’s Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Dutch counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel reasonably satisfactory to the Depositary and at the expense of the Issuer and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive

under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Issuer or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Issuer has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Issuer notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Issuer to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Issuer procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Issuer nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8 Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9 Distribution of any Payments

- 9.1** Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Issuer as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2** Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Issuer as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Issuer with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Issuer when the Depositary shall retain the same) return the same to the Issuer for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10 Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Issuer or to which it is a party (except where the Issuer is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11 Withholding Taxes and Applicable Laws

- 11.1** Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Dutch and other withholding taxes, if any, at the applicable rates.
- 11.2** If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in The Netherlands in order for the Depositary to receive from the Issuer Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Issuer has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Issuer has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12 Voting Rights

- 12.1** Holders will have voting rights with respect to the Deposited Shares. The Issuer has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Issuer and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Issuer has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Issuer and the agenda therefor in order for the Depositary to prepare requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Issuer or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Issuer has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2** In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3** The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4** If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Dutch law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Dutch law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5** The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Issuer with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Issuer to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Issuer informs the Depositary (and the Issuer has agreed to provide such information in writing as soon as practicable) that (i) the Issuer does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.
- 12.6** If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Dutch law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7** Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Issuer and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 unless it shall have received an opinion from the Issuer's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Issuer to the effect that such voting arrangement is valid and binding on Holders under Dutch law and the statutes of the Issuer and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.
- 12.8** By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Dutch law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13 Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the “Charges”) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14 Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Issuer, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of The Netherlands or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Issuer, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Issuer or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Issuer or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary’s normal practices and procedures, but shall have no liability (in the absence of its own wilful default,

negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

- 14.6** The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Issuer of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7** The Depositary shall have no responsibility whatsoever to the Issuer, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8** In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9** Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10** The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Issuer, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.
- 14.11** Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.
- 14.12** The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Issuer by a director of the Issuer or by a person duly authorised by a director of the Issuer or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13** The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14** The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Issuer may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Issuer to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Issuer in making such delegation. The Issuer shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Issuer, pursue (at the Issuer's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension

or termination thereof, give notice thereof to the Issuer. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Issuer and the Depositary.

- 14.15** The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.16** The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17** Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.
- 14.18** No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.
- 14.19** For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Dutch law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Issuer, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20** No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15 Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16 Depositary's Fees, Costs and Expenses

- 16.1** The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Global Offer) or the cancellation of GDRs upon the withdrawal of Deposited Property: US \$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
 - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
 - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of US \$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate

which is determined by the Depository to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

- (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of US\$0.02 or less per GDR for each such dividend or distribution;
- (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: US \$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
- (vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of US \$0.05 or less per GDR;
- (vii) a fee of U.S.\$0.02 or less per GDR for depository services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, provided however that no fee will be assessed under this provision to the extent a fee was charged in such calendar year pursuant to paragraph (iv) above; and
- (viii) any other charge payable by the Depository, any of the Depository's agents, including the Custodian, or the agents of the Depository's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depository and shall be payable at the sole discretion of the Depository by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depository, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depository is entitled to receive from the Issuer the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Issuer and the Depository.

17 Agents

17.1 The Depository shall be entitled to appoint one or more agents (the “**Agents**”) for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depository or any Agent will be duly given by the Depository to the Holders.

18 Listing

The Issuer has undertaken in the Deposit Agreement to use its reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the “**Official List**”) and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Issuer will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Issuer has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depository (provided at the Issuer's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange.

19 The Custodian

The Depository has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depository to receive and hold) all Deposited Property for the account and to the order of the Depository in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depository PROVIDED THAT, if and so long as the Depository and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience

only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Issuer. The Custodian may resign or be removed by the Depositary by giving 60 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Issuer, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in The Netherlands, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Issuer, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Issuer, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in The Netherlands, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Issuer shall have consented to such deposit, and such consent of the Issuer shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Issuer if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20 Resignation and Termination of Appointment of the Depositary

- 20.1** The Issuer may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Issuer and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the FSA and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Issuer of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Issuer has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the FSA and the London Stock Exchange.

- 20.2** Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Issuer under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21 Termination of Deposit Agreement

- 21.1** Either the Issuer or the Depositary but, in the case of the Depositary, only if the Issuer has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

- 21.2** During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.
- 21.3** If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and following termination shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22 Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Issuer and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23 Notices

- 23.1** Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2** Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Issuer may, however, act upon any telex or facsimile transmission received by it from the other or from any

Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

24 Reports and Information on the Issuer

- 24.1** The Issuer has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depository with six copies in the English language (and to make available to the Depository, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:
- (i) in respect of the financial year ending on 31 December 2007 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Issuer, prepared in conformity with International Financial Reporting Standards (“IFRS”) in The Netherlands and reported upon by independent public accountants selected by the Issuer, as soon as practicable (and in any event within 180 days) after the end of such year;
 - (ii) if the Issuer publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Issuer, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and
 - (iii) if the Issuer publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate.]
- 24.2** The Depository shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.
- 24.3** For so long as any of the Rule 144A GDRs remains outstanding and are “**restricted securities**” within the meaning of Rule 144(a)(3) under the United States Securities Act of 1933, as amended, if at any time the Issuer is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed in the Deposit Agreement to supply to the Depository such information, in the English language and in such quantities as the Depository may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Issuer in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the US Securities Act of 1933, as amended, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depository will deliver such information, during any period in which the Issuer informs the Depository it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depository have any liability for the contents of any such information.

25 Copies of Issuer Notices

The Issuer has undertaken in the Deposit Agreement to transmit to the Custodian and the Depository on or before the day when the Issuer first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Issuer (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depository may reasonably request. If such notice is not furnished to the Depository in English, either by the Issuer or the Custodian, the Depository shall, at the Issuer’s expense, arrange for an English translation thereof (which may be in such summarised form as the Depository may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depository shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26 Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Issuer for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Issuer or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27 Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28 Governing Law

- 28.1** The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Dutch law. The Issuer has submitted in respect of the Deposit Agreement (subject to Condition 28.5) and the Deed Poll to the jurisdiction of the English courts. The Issuer has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.
- 28.2** The Issuer has irrevocably appointed Law Debenture Corporate Services Limited, at fifth floor, 100 Wood Street, London EC2V 7EX, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed CT Corporation at 111 Eighth Avenue, New York, 10011 United States, as its agent for service of process in New York. If for any reason the Issuer does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3** The courts of England are to have jurisdiction to settle any disputes (each a “**Dispute**”) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (“**Proceedings**”) may be brought in such courts. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4** These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5** In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Issuer, or which contains allegations to such effect, upon notice from the Depositary, the Issuer has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding and for this purpose the Company irrevocably submits to the non-exclusive jurisdiction of any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City and the Company waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.6** The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

GDRs and Dutch Depositary Receipts

The GDRs may qualify as depositary receipts of shares issued with the cooperation of the Issuer (*certificaten van aandelen uitgegeven met medewerking van de vennootschap*) under Dutch law. If the GDRs do qualify as depositary receipts of Shares under Dutch law, the holders of such GDRs will be entitled to rights as provided for under Dutch law. In such case, in the event of a conflict between the terms and conditions of the GDRs as provided for in the Deposit Agreement and the rights of holders of depositary receipts of Shares under Dutch law, the terms and conditions of the GDRs under the Deposit Agreement shall, to the extent permitted by Dutch law, prevail. See also “*Description of the Shares and Applicable Dutch Legislation — Depositary Receipts and GDRs*”.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Although the Deposit Agreement provides for the issue of Rule 144A GDRs, no Rule 144A GDRs will be issued on the Closing Date or are otherwise being offered in the Global Offer.

The GDRs will initially be evidenced by a single Regulation S Master GDR (the “Master GDR”) in registered form. The Master GDR will be deposited with the Depositary as common depositary for the respective accounts of Euroclear and Clearstream on the date the GDRs are issued. The Master GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions in the Deposit Agreement. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein and the numbering of the Conditions shall refer to the numbering as set out in the Deposit Agreement.

The Master GDR will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (a), (b) or (c) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for the Master GDR to the Holders within 60 days in the event that:

- (a) Euroclear or Clearstream advises the Issuer in writing that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or
- (b) either Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business and no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- (c) the Depositary has determined that, on the occasion of the next payment in respect of the Master GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR, which would not be required were the Master GDR represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the Issuer.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream.

Upon any exchange of a Master GDR for certificates in definitive registered form evidencing GDRs or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the Register provided always that if the number of GDRs represented by the Master GDR is reduced to zero the Master GDR shall continue in existence until the obligations of the Issuer under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payment, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master GDR, be made by the Depositary through Euroclear and Clearstream on behalf of persons entitled thereto upon receipt of funds therefore from the Issuer. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders may result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master GDR.

Payments of dividends and other cash distributions payable in respect of the GDRs represented by the Master GDR will be made by the Depositary in US dollars.

Holders of GDRs will have voting rights in respect of Deposited Shares as set out in Condition 12 and Clause 5 of the Deposit Agreement. Subject as provided in Condition 12, voting rights will be exercised by the Depositary only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement, as permitted by applicable law.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of GDRs to the Depositary shall be satisfied by the production by Euroclear or Clearstream on behalf of a legal entity entitled to an interest in such GDRs of such evidence of entitlement of such legal entity as the Depositary may reasonably require, which is expected to be a

certificate or other documents issued by Euroclear or Clearstream or if relevant an alternative clearing system. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent, and the Custodian of the title of such legal entity to receive (or to issue instructions for the receipt of) all money or other property payable or distributable, and to issue voting instructions, in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master GDR is registered in the name of a common nominee on behalf of Euroclear and Clearstream, notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear or Clearstream for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23.

The Master GDR shall be governed by, and construed in accordance with, English law.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286 and at The Bank of New York, One Canada Square, London E14 5AL.

TAXATION

The following summary of material Dutch and United Kingdom tax consequences of ownership of Shares and GDRs is of a general nature and based upon laws, regulations, decrees, rulings, double taxation conventions, agreements and arrangements, administrative practice and judicial decisions in effect as at the date of this prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth in this prospectus. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of the GDRs.

The following is intended only as a general guide and is not intended to be, nor should it be considered, legal or tax advice to any particular holder of Shares or GDRs. It is not intended to address all tax aspects that may be relevant to a holder of Shares or GDRs. Accordingly, potential investors should satisfy themselves as to the overall tax consequences in their own particular circumstances of their acquisition, ownership and disposal of Shares and GDRs, including any pending or proposed changes in relevant tax laws as at the date of this prospectus and any actual changes in relevant tax laws after such date, by consulting their own tax advisers in all relevant jurisdictions.

The Netherlands

General

The following summary outlines certain Netherlands tax consequences in connection with the acquisition, ownership and disposal of Shares and GDRs. The summary does not purport to present any comprehensive or complete overview of all Netherlands tax aspects that could be of relevance to a holder of Shares or GDRs of the Issuer, who may be subject to special tax treatment under any applicable law. The summary is based on the current law and practice of The Netherlands, which is subject to changes that could prospectively or retroactively affect the stated tax consequences. **Prospective holders of Shares or GDRs who may be in any doubt as to their respective tax positions should consult their own professional advisors regarding the tax consequences of any acquisition, ownership or disposal of the Shares and GDRs.**

Withholding tax on dividends

Dividends distributed by the Issuer in respect of Shares and GDRs are generally subject to a withholding tax imposed by The Netherlands at a rate of 15% (applicable from 1 January 2007). The expression “dividends distributed by the Issuer” as used herein includes, but is not limited to:

- (i) distributions in cash or in kind, including deemed and constructive distributions, and repayments of paid-in capital (“gestort kapitaal”) not recognised for Netherlands dividend withholding tax purposes;
- (ii) liquidation proceeds, proceeds of redemptions of Shares and GDRs and consideration for the repurchase of Shares and GDRs in excess of the average paid-in capital recognised for Netherlands dividend withholding tax purposes;
- (iii) the par value of Shares and GDRs issued to a current holder or an increase in the par value of Shares and GDRs, as the case may be, to the extent that it does not appear that a contribution, recognised for Netherlands dividend withholding tax purposes, has been made or will be made; and
- (iv) partial repayments of paid-in capital, recognised for Netherlands dividend withholding tax purposes, if and to the extent that there are net profits (“zuivere winst”), unless (a) the general meeting of shareholders of the Issuer has resolved in advance to make such repayment and (b) the par value of the Shares and GDRs concerned has been reduced by an equal amount by way of an amendment of the Articles of Association of the Issuer.

If the Issuer has received a profit distribution from its subsidiary ShalkiyaZinc that is exempt from Dutch corporate income tax and that has been subject to Kazakhstan withholding tax of at least 5%, the Issuer may be entitled to a reduction in the amount of Netherlands dividend withholding tax in respect of dividends, but will not receive a reduction in the amount of dividend withholding tax that it is required to withhold from dividends paid to the holders of Shares or GDRs. The reduction is the lesser of (i) 3% of the portion of the gross amount of the dividend paid by the Issuer that is subject to withholding and (ii) 3% of the gross amount of the dividends received from ShalkiyaZinc.

A holder of Shares or GDRs that is resident or deemed to be resident in The Netherlands or, if he is an individual, who has elected to be taxed as resident in The Netherlands for Netherlands income tax purposes, is generally

entitled, subject to the anti-dividend stripping rules described below, to a full credit against its (corporate) income tax liability, or a full refund, of Netherlands dividend withholding tax.

A holder of Shares or GDRs that is resident in a country other than The Netherlands and a double taxation convention is in effect between The Netherlands and such country, may, depending on the terms of such double taxation convention and subject to anti-dividend stripping rules described below, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax on dividends received.

According to anti-dividend stripping rules, no exemption, reduction, credit or refund of Netherlands dividend withholding tax will be granted if the recipient of the dividend paid by the Issuer is not considered the beneficial owner (“uiteindelijk gerechtigde”) of the dividend as defined in these rules. A recipient of a dividend is not considered the beneficial owner of the dividend if, as a consequence of a combination of transactions, (i) a person (other than the holder of the dividend coupon) partly or wholly benefits from the dividend, (ii) such person directly or indirectly retains or acquires an interest in the Shares and GDRs on which the dividends are distributed, and (iii) such person is entitled to a less favourable exemption, refund or credit of dividend withholding tax than the recipient of the dividend distribution. The term “combination of transactions” includes transactions that have been entered into in the anonymity of a regulated stock market and transactions with respect to the sole acquisition of one or more dividend rights or of the establishment of short-term rights of enjoyment on the Shares and GDRs (e.g. usufruct).

Taxes on income and capital gains

Holders of Shares or GDRs resident in The Netherlands: individuals

A holder of Shares or GDRs, who is an individual, resident or deemed to be resident in The Netherlands, or who has elected to be taxed as resident in The Netherlands for Netherlands income tax purposes, will be subject to regular Netherlands income tax on the income derived from the Shares and GDRs and the gains realised upon the acquisition, redemption and/or disposal of the Shares and GDRs by the holder thereof, if:

- (i) such holder of Shares or GDRs has an enterprise or an interest in an enterprise, to which enterprise the Shares and GDRs are attributable;
- (ii) such income or capital gain forms “a benefit from miscellaneous activities” (“resultaat uit overige werkzaamheden”) which, for instance, would be the case if the activities with respect to the Shares and GDRs exceed “normal active asset management” (“normaal, actief vermogensbeheer”); and/or
- (iii) such holder has a substantial interest in the Issuer.

Generally, a holder of Shares or GDRs will not have a substantial interest in the Issuer if the shareholder, whether or not together with his partner and/or certain other close relatives, does not hold, alone or together, directly or indirectly:

- (a) (x) the ownership of, (y) certain other rights, such as usufruct, over, or (z) rights to acquire (whether or not already issued), Shares and GDRs of the Issuer representing 5% or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of Shares and GDRs) of the Issuer, or
- (b) (x) the ownership of, or (y) certain other rights, such as usufruct over, profit participating certificates (“winstbewijzen”) that relate to 5% or more of the annual profit of the Issuer or to 5% or more of the liquidation proceeds of the Issuer;

If either of the above-mentioned conditions (i) or (ii) applies, income or capital gains in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs will in general be subject to Netherlands income tax at the progressive rates.

If the above-mentioned condition (iii) applies, income or capital gains in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs will in general be subject to Netherlands income tax at a rate of 25%.

If the above-mentioned conditions (i), (ii) and (iii) do not apply, the holder of Shares or GDRs who is an individual, resident or deemed to be resident in The Netherlands, or who has elected to be taxed as a resident of The Netherlands, will not be subject to taxes on income and capital gains in The Netherlands. Instead, the individual is taxed at a flat rate of 30% on deemed income from “savings and investments” (“sparen en beleggen”). This deemed income amounts to 4% of the average of the individual’s “yield basis” (“rendement-sgrondsag”), generally, at the beginning of the calendar year and the individual’s “yield basis” at the end of the

calendar year (minus a tax-free threshold). The yield basis would include the fair market value of the Shares and GDRs.

Holder of Shares or GDRs resident in The Netherlands: corporate entities

A holder of Shares or GDRs that is resident or deemed to be resident in The Netherlands for corporate income tax purposes, and that is:

- (i) a corporation;
- (ii) another legal entity with a capital divided into Shares and GDRs;
- (iii) a cooperative (association); or
- (iv) another legal entity that has an enterprise or an interest in an enterprise to which the Shares and GDRs are attributable,

but which is not:

- (v) a qualifying pension fund (which is not subject to corporate income tax with respect to any benefits derived from the Shares and GDRs (except to the extent it generates benefits from activities that are considered not to be directly related with certain qualifying pension arrangements));
- (vi) a qualifying investment fund (“*fiscale beleggingsinstelling*”) (which is subject to corporate income tax at a special rate of 0%); or
- (vii) another legal entity exempt from corporate income tax,

will in general be subject to regular corporate income tax, levied at a rate for 2006 of 29.6% (25.5% on profits up to €22.689 thousands) on income derived from the Shares and GDRs and gains realised upon acquisition, redemption and disposal of the Shares and GDRs. The corporate income tax will be reduced from 1 January 2007 (20% on profits up to €25 thousands; 23.5% on profits between €25 thousands and €60 thousands; 25.5% on remainder).

However, if and to the extent that such holder of Shares or GDRs is eligible for the application of the participation exemption (“*deelnemingsvrijstelling*”) as defined in article 13 of the Netherlands Corporate Income Tax Act (*CITA*) with respect to the Shares and GDRs, income derived from the Shares and GDRs and gains realised on the Shares and GDRs may be exempt from Netherlands corporate income tax. Generally, the participation exemption applies if a holder of Shares or GDRs (i) holds an interest of at least 5% in the issued and paid up nominal share capital of the Issuer and (ii) is not an investment fund benefiting from the provisions under article 28 of the *CITA*.

Holders of Shares or GDRs resident outside The Netherlands: individuals

A holder of Shares or GDRs, who is an individual, not resident or deemed to be resident of The Netherlands, and who has not elected to be taxed as a resident of The Netherlands for Netherlands income tax purposes, will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs (other than the withholding tax described above), unless:

- such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares and GDRs are attributable;
- such dividend or capital gain forms a “benefit from miscellaneous activities in The Netherlands” (“*resultaat uit overige werkzaamheden in Nederland*”) which would for instance be the case if the activities in The Netherlands with respect to the Shares and GDRs exceed “normal active asset management” (“*normaal, actief vermogensbeheer*”); or
- such holder has a substantial interest (as described above) in the Issuer, that does not form part of the assets of an enterprise.

If either of the above-mentioned conditions (i), or (ii) applies, income or capital gains in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs will in general be subject to Netherlands income tax at the progressive rates.

If the above-mentioned condition (iii) applies, income in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs will in general be subject to Netherlands income tax at a rate of 25%.

Holders of Shares or GDRs resident outside The Netherlands: Legal and other entities

A holder of Shares or GDRs, that is a legal entity, another legal entity with a capital divided into Shares or GDRs, an association, a foundation or a fund or trust, not resident or deemed to be resident in The Netherlands, will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Issuer or in respect of any gain realised on the disposal of Shares and GDRs, unless:

- (i) such holder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares and GDRs are attributable and the participation exemption (“*deelnemingsvrijstelling*”) as described above does not apply to any income or capital gain arising from such Shares and GDRs; or
- (ii) such holder has a substantial interest (as described above) in the Issuer, that does not form part of the assets of an enterprise; or
- (iii) such holder does not have an interest in an enterprise in The Netherlands other than by way of securities.

If one of the above-mentioned conditions applies, income derived from the Shares and GDRs and gains realised on the Shares and GDRs will, in general, be subject to regular corporate income tax levied at a rate for 2006 of 29.6% (25.5% over profits up to €22.689 thousand). The corporate income tax will be reduced from 1 January 2007 (20% on profits up to €25 thousands; 23.5% on profits between €25 thousands and €60 thousands; 25.5% on remainder).

Gift and Inheritance Taxes

Gift tax may be due in The Netherlands with respect to an acquisition of Shares and GDRs by way of a gift by a holder of Shares or GDRs who is resident or deemed to be resident in The Netherlands. Inheritance tax may be due in The Netherlands with respect to an acquisition or deemed acquisition of Shares and GDRs by way of an inheritance or bequest on the death of a holder of Shares or GDRs who is resident or deemed to be resident of The Netherlands, or by way of a gift within 180 days before his death by a holder of Shares or GDRs who is resident or deemed to be resident in The Netherlands at the time of his death.

For purposes of Netherlands gift and inheritance tax, an individual with The Netherlands nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. For purposes of Netherlands gift tax, an individual not holding The Netherlands nationality will be deemed to be resident of The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

No gift, estate or inheritance taxes will arise in The Netherlands with respect to an acquisition of Shares and GDRs by way of a gift by, or on the death of, a holder of Shares or GDRs who is neither resident, deemed to be resident nor has requested to be treated as a resident in The Netherlands for Netherlands inheritance and gift tax purposes, unless:

- (i) such holder at the time of the gift has or at the time of his death had an enterprise or an interest in an enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Shares and GDRs are or were attributable; or
- (ii) in the case of a gift of Shares and GDRs by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

Turnover tax

No Netherlands turnover tax will arise in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares and GDRs.

Other taxes and duties

No Netherlands registration tax, capital tax, custom duty, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, will be payable in The Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Shares and GDRs.

United Kingdom

General

The comments below are of a general nature and are based on current UK law and published HM Revenue and Customs practice at the date of this prospectus, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal UK tax consequences of holding Shares or GDRs for absolute beneficial holders who are resident (and, in the case of individuals only, ordinarily resident) in the United Kingdom for tax purposes (“**UK Holders**”). In addition, the summary: (i) only addresses the tax consequences for UK Holders who hold the Shares or GDRs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers; (ii) does not address the tax consequences for UK Holders that are insurance companies, collective investment schemes or persons connected with the Issuer; (iii) only addresses the tax consequences of dividends for a UK Holder where the dividends paid are regarded for UK tax purposes as that UK Holder’s own income (and not the income of some other person); (iv) assumes that the UK Holder is not interested in or deemed to be interested in, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the share capital or the voting power or the profits of the Issuer; (v) assumes that there will be no register in the United Kingdom in respect of the Shares or GDRs; (vi) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depository incorporated in the United Kingdom and (vii) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the United Kingdom.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular UK Holder. Accordingly, potential investors should satisfy themselves as to the overall tax consequences, including the consequences under UK law and HM Revenue and Customs practice, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances by consulting their own tax advisers.

Dividends

A UK Holder will generally be subject to UK income tax or corporation tax, as the case may be, on any dividends paid by the Issuer.

An individual UK Holder who is not domiciled in the United Kingdom will be liable to UK income tax only to the extent that dividends paid by the Issuer are received or deemed to be received in the United Kingdom.

Capital gains

A disposal or deemed disposal of Shares or GDRs by a UK Holder may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of capital gains depending on the individual circumstances of the holder and subject to any available exemption or relief. In addition, individual holders who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the year in which they cease to be non-resident.

An individual UK Holder who is not domiciled in the United Kingdom will be liable to UK capital gains tax only to the extent that amounts (if any) are received or deemed to be received in the United Kingdom.

Taper relief can be used to reduce a chargeable gain for the purposes of capital gains tax (but not corporation tax on chargeable gains), depending on the period for which the Shares or GDRs are held prior to disposal, but not to create or increase an allowable loss. Indexation allowance may be available to corporate holders to reduce or eliminate a chargeable gain but not to create or increase an allowable loss.

Stamp duty and stamp duty reserve tax

No UK stamp duty reserve tax will be payable on the issue of the GDRs or on any agreement to transfer Shares or GDRs. No UK stamp duty will be payable on the issue of the Shares or the GDRs; nor will stamp duty be payable on the acquisition or transfer of Shares or GDRs provided that the instrument of transfer is executed outside the United Kingdom and does not relate to any property situated in the United Kingdom or to any matter or thing done or to be done in the United Kingdom.

SUBSCRIPTION AND SALE

Underwriting Arrangements

ING Bank N.V., London Branch and Aton International Limited have entered into the Underwriting Agreement dated 8 December 2006 with the Issuer, the Selling Shareholders, their holding companies and ultimate individual shareholders.

Pursuant to the terms and subject to the conditions contained in the Underwriting Agreement, the Issuer has agreed to issue and offer 1,150,000 new Shares in the form of GDRs and the Selling Shareholders have agreed to sell 250,000 existing Shares in the form of GDRs and make available up to 210,000 additional Shares in the form of GDRs pursuant to the Over-allotment Option at the Offer Price and each of the Managers has agreed severally (and not jointly nor jointly and severally) to procure acquirers for, of failing which to acquire itself, at the Offer Price, the number of Offer GDRs set forth opposite its name below pursuant to the Global Offer.

<u>Managers</u>	<u>Number of Offer GDRs</u>
ING Bank N.V., London Branch	12,600,000
Aton International Limited	1,400,000
Total	14,000,000

Allocations of Offer GDRs under the Global Offer will be determined at the discretion of the Issuer and the Selling Shareholders (following consultation with the Lead Manager).

The Underwriting Agreement contains, amongst others, the following further provisions:

- The Selling Shareholders have agreed to grant the Lead Manager, on behalf of the Managers, an Over-allotment Option to acquire or procure acquirers for up to 2,100,000 Over-allotment GDRs at the Offer Price (representing 210,000 existing Shares) for the purpose of allowing the Lead Manager or any of its agents to meet over-allotments, if any, in connection with the Global Offer and/or to cover short positions resulting from stabilising transactions. Following the Closing Date, the number of Over-allotment GDRs which are the subject of the Over-allotment Option may vary but will be determined not later than 30 days after the announcement of the Offer Price. Settlement of any acquisition of Over-allotment GDRs will take place shortly after such determination (or if acquired on the Closing Date, at Admission). If any of the Over-allotment GDRs are acquired pursuant to the Over-allotment Option, the Lead Manager will be committed to pay the Selling Shareholders, or procure that payment is made to it of, an amount equal to the Offer Price multiplied by the number of Over-allotment GDRs made available by it, less commissions and sale expenses.
- Save as specified above, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over allotments and/or stabilisation transactions under the Global Offer.
- The Selling Shareholders have agreed to pay to the Lead Manager, for and on behalf of the Managers, a commission of 5.0% of the amount equal to the Offer Price multiplied by the number of Offer GDRs representing existing Shares which the Managers have agreed to procure acquirers, or failing which to acquire themselves (excluding any Over-allotment GDRs) and a commission of 5.0% of the amount equal to the Offer Price multiplied by the number of Over-allotment GDRs (if any) for which the Managers procure acquirers or acquire themselves pursuant to the Over-allotment Option.
- The Issuer's obligations, together with those of the other parties to the Underwriting Agreement, are subject to certain conditions which are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the applications for Admission having been approved on or prior to the Closing Date. The Lead Manager may terminate the Underwriting Agreement in certain circumstances that are typical for an agreement of this nature. These circumstances include the occurrence of certain material changes in the condition (financial or otherwise), business prospects, business affairs or earnings of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to the Closing Date, then the Global Offer will lapse.
- The Issuer has agreed to pay or cause to be paid (together with any related value added tax) certain costs, charges, fees and expenses of, or in connection with, or incidental to, amongst others, the Global Offer, Admission or the other arrangements contemplated by the Underwriting Agreement.

- The Selling Shareholders have given certain warranties to the Managers, including in relation to its capacity, its good title to the Shares and its conduct.

If the Lead Manager terminates the Underwriting Agreement prior to the Closing Date or if for any other reason the Global Offer does not proceed, Admission will not take place and any monies received in respect of the Global Offer will be returned to applicants without interest.

Lock-up Arrangements

The Issuer, the Selling Shareholders, certain holding companies and their indirect shareholders have entered into certain lock-up arrangements.

Each of the Issuer, the Selling Shareholders, their holding companies and their ultimate individual shareholders has severally agreed that it will not: (a) issue, offer, lend, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any Shares or GDRs or any securities convertible into or exercisable or exchangeable for, Shares or GDRs; (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Shares or GDRs; or (c) publicly announce any intention to enter into any transaction described in (a) or (b) above, whether any such transaction described in (a) or (b) above is to be settled by delivery of Shares or GDRs or such other securities, in cash or otherwise, during the period from the date hereof and ending 180 days (in respect of the Issuer) and 360 days (in respect of the Selling Shareholders, their holding companies and their ultimate individual shareholders) after the Closing Date, without the prior written consent of the Lead Manager, on behalf of the Managers, provided that the foregoing shall not apply to (i) the issue, offer and sale of the Offer GDRs and the sale of the Shares underlying such Offer GDRs pursuant to the Global Offer, and (ii) the issue, offer and sale by the Issuer of Shares or GDRs pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan for employees (including directors) or former employees of the Issuer or its subsidiaries that the Issuer may adopt and that is approved by the Issuer's shareholders, if such approval is required under applicable laws, subject to an aggregate maximum of 5% of the Issuer's then outstanding share capital.

Dealing Arrangements

All Offer GDRs made available pursuant to the Global Offer will be sold at the Offer Price. It is expected that Admission will take place and unconditional dealings in the GDRs will commence on the London Stock Exchange at 8.00 a.m. (London time) on or about 14 December 2006. Prior to that time, it is expected that dealings in the GDRs will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on or about 8 December 2006. All dealings in the GDRs prior to the commencement of unconditional dealings will be on a "conditional basis", will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed. If the Global Offer does not become unconditional or does not otherwise proceed, all such dealings will be of no effect and any such dealings will be at the risk of the parties concerned.

Over-allotment and Stabilisation

In connection with the Global Offer, the Lead Manager, or any of its agents may, to the extent permitted by applicable law, at its discretion over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail in the open market. The Lead Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be undertaken during the 30 day period from the announcement of the Offer Price.

Save as specified above, neither the Lead Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

In connection with the Global Offer, the Selling Shareholders have agreed with the Lead Manager, on behalf of the Managers, that the Lead Manager, on behalf of the Managers, may, acting as principal, acquire or procure acquirers for up to the maximum number of Over-allotment GDRs at the Offer Price for the purpose of allowing the Lead Manager, on behalf of the Managers, or any of its agents, to the extent permitted by applicable law, to cover over-allotments, if any, in connection with the Global Offer. Any decision to acquire or procure acquirers for any Over-allotment GDRs will be taken no later than 30 days after the announcement of the Offer Price. Any existing Shares represented by Over-allotment GDRs made available pursuant to the Over-allotment Option will rank *pari passu* with the existing Shares, including for all dividends and other distributions declared, made or paid on the existing Shares and will form a single class for all purposes with the other Shares.

In connection with the Over-allotment Option, the Lead Manager, on behalf of the Managers, acting as principal, will enter into a stock lending agreement with the Selling Shareholders pursuant to which the Lead Manager, on behalf of the Managers, may borrow additional existing Shares representing up to 15% of the Firm Shares to be made available in the Global Offer in the form of GDRs for the purposes, amongst other things, of allowing the Lead Manager, on behalf of the Managers, to settle over-allotments, if any, made in connection with the Global Offer. If the Lead Manager, on behalf of the Managers, borrows any additional existing Shares pursuant to the stock lending agreement it will be required to return equivalent securities to the Selling Shareholder in accordance with the terms of the stock lending agreement within a limited period.

Selling Restrictions

The distribution of this prospectus and the offer of GDRs in certain jurisdictions may be restricted by law and therefore persons into whose possession this prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

Each Manager has severally represented, warranted and agreed that, to the best of its knowledge and belief, it has complied and will comply with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers GDRs or distributes the Prospectus (and any amendments thereof and supplements thereto) and any other offering or publicity material relating to the GDRs or the Issuer.

United States

The GDRs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has severally represented that it has not offered or sold, and agrees that it will not offer or sell, any Securities constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

United Kingdom

Each Manager has severally represented, warranted and agreed that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA received by it in connection with the issue or sale of any GDRs in circumstances where section 21(1) of the FSMA does not apply to the Issuer; and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State"), each Manager has severally represented and warranted that it has not made and will not make an offer to the public of any GDRs in that Relevant Member State, except that it may

make an offer to the public in that Relevant Member State of any GDRs at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the GDRs shall result in a requirement for the publication by the Issuer, the Selling Shareholders or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any GDRs to be offered so as to enable an investor to decide to purchase any GDRs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Kazakhstan

Each Manager has severally represented and warranted that it has not directly or indirectly offered for subscription or sale, or purchased or issued invitations to subscribe for or buy or sell, GDRs or distributed any draft or definitive documentation in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

Russian Federation

Each Manager has agreed that the GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to, or for the benefit of, any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Managers may distribute the Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of GDRs and may sell GDRs to Russian persons in a manner that does not constitute “placement” or “public circulation” of the GDRs in the Russian Federation (as defined in Russian law).

TRANSFER RESTRICTIONS

Due to the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the GDRs, including the Regulation S GDRs, the Rule 144A GDRs, or the Shares represented thereby.

Regulation S GDRs

Each purchaser of Regulation S GDRs in the Global Offer, by its acceptance thereof, will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (1) The purchaser (i) is, and the person, if any, for whose account it is acquiring the Regulation S GDRs is, purchasing the Regulation S GDRs outside the United States in an offshore transaction in compliance with Regulation S and (ii) is not an affiliate of the Issuer or acting on behalf of such an affiliate.
- (2) The purchaser is aware that the Regulation S GDRs and the Shares represented thereby have not been and will not be registered under the US Securities Act and are being offered outside the United States in reliance on Regulation S.
- (3) The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs, except PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, AND, IN ANY EVENT, IN COMPLIANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.
- (4) If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs or the Shares represented thereby, such Regulation S GDRs and Shares represented thereby may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Issuer and the Depository in accordance with applicable law:

THIS GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF SHALKIYAZINC N.V. REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF A RESTRICTED PERIOD (DEFINED AS THE PERIOD ENDING 40 DAYS AFTER THE LATEST OF THE COMMENCEMENT OF THE GDR OFFERING, THE ORIGINAL ISSUE DATE OF THE GDRS AND THE LATEST ISSUE DATE WITH RESPECT TO THE ADDITIONAL GDRS, IF ANY, ISSUED TO COVER OVER-ALLOTMENTS) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD REFERRED TO ABOVE, THIS GLOBAL DEPOSITARY RECEIPT AND THE SHARES REPRESENTED HEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER OR SALE OF THE GLOBAL DEPOSITARY RECEIPTS REPRESENTED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE HOLDER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

- (5) The GDRs will initially be represented by a single Master GDR.
- (6) Except in certain limited circumstances, the GDRs may only be held as interests in the Master GDR. Such interests in the Master GDR will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg, and their respective direct and indirect participants.

Rule 144A GDRs

To the extent any Rule 144A GDRs (including those issued in exchange for Regulation S GDRs) are issued in the future and for so long as such Rule 144A GDRs are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, such Rule 144A GDRs and the Shares represented thereby may only be offered, sold or delivered within the United States to qualified institutional buyers or QIBs, as defined in Rule 144A under the US Securities Act, in reliance on the exemption from the registration requirements of the US Securities Act provided by Rule 144A.

Each purchaser of Rule 144A GDRs within the United States will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (1) It understands that the Rule 144A GDRs and the Shares represented thereby have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of a QIB; (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available); or (d) pursuant to an effective registration statement under the US Securities Act, in each case in accordance with any applicable securities laws of any state of the United States.
- (2) It is (A) a QIB within the meaning of Rule 144A at the time of issuance of the Rule 144A GDRs, (B) acquiring such Rule 144A GDRs for its own account or for the account of a QIB and (C) aware, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale of such Rule 144A GDRs to it is being made in reliance on Rule 144A.
- (3) It agrees, and each beneficial owner of such Rule 144A GDRs has confirmed to it that it agrees, that it will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDRs or any Shares represented thereby except as permitted by the applicable legend set out in paragraph 4 below.
- (4) It understands that all Rule 144A GDRs, unless otherwise agreed between the Company and the Depositary in accordance with applicable law, will bear a legend substantially to the following effect:

“NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRS EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY ARE EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRS EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE “RESTRICTED SECURITIES” WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.”

Notwithstanding anything to the contrary in the foregoing, the GDRs may not be deposited into any unrestricted depositary receipt facility in respect of GDRs established or maintained by a depositary bank.

- (5) The Issuer, the Depositary, the purchasers and their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Rule 144A GDRs for the account of one or more QIBs, such purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (6) It understands that the Rule 144A GDRs offered in reliance on Rule 144A will be evidenced by the Master Rule 144A GDR. Before any interest in the Master Rule 144A GDR may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Master GDR, it will be required to provide the Depositary with a written certification (in the form provided in the Rule 144A Deposit Agreement) as to compliance with applicable securities laws.
- (7) To the extent, if any, that Rule 144A GDRs are issued in the future, they will initially be represented by Rule 144A Master GDRs.

To the extent (if any) that Rule 144A GDRs may be offered and sold after the date of this prospectus, prospective purchasers thereof are hereby notified that the relevant sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act followed by Rule 144A.

General

The GDRs may not be offered or sold directly or indirectly in Kazakhstan, or to, or for the account or benefit of any Kazakhstan person.

Any resale or other transfer, or attempted resale or other transfer, made otherwise than in compliance with the above-stated restrictions shall not be recognised by the Company or the Depositary in respect of the Regulation S GDRs, the Rule 144A GDRs or the Shares represented thereby.

SETTLEMENT AND DELIVERY

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions including underwriters, securities brokers and dealers, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through, or maintain a custodial relationship with a participant of either system.

No beneficial owner of an interest in a GDR will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the Deposit Agreement.

The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer beneficial interests in the GDRs.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a “banking organisation” within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants’ accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the Rule 144A GDRs holding through DTC will receive, to the extent received by the Depository, all distributions of dividends or other payments with respect to book-entry interests in the Rule 144A GDRs from the Depository through DTC and DTC participants. Distributions in the United States will be subject to relevant US tax laws and regulations.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the Rule 144A GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the Rule 144A GDRs, may be limited.

General

Custodial and depository links have been established between Euroclear, Clearstream and DTC to facilitate the issue of the GDRs, including the Rule 144A GDRs, if any, and cross-market transfers of the GDRs associated with secondary market trading.

Global Clearance and Settlement Procedures

Initial settlement

The GDRs will be delivered at initial settlement to a common depository for Euroclear and Clearstream, Luxembourg. Customary settlement procedures will be followed for participants of each system at initial settlement. Investors are required to pay for the GDRs in US dollars. GDRs will be credited to investors’ securities accounts on the settlement date against payment in same-day funds. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Rule 144A GDRs through DTC will follow the delivery practices applicable to securities eligible for DTC’s Same-Day Funds Settlement (“**SDFS**”) system. DTC

participants' securities accounts will be credited with book-entry interests in the Rule 144A GDRs on the issue date.

Secondary trading — Trading between Euroclear and/or Clearstream, Luxembourg account holders

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to depositary receipts.

Secondary trading — Trading between DTC Participants

Secondary market sales of book-entry interests in the Rule 144A GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary shares in DTC's SDFS system in same-day funds, if payment is effected in US dollars, or free of payment, if payment is not effected in US dollars. Where payment is not effected in US dollars, separate payment arrangements outside the DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Regulation S Master GDR.

Trading between Euroclear/Clearstream seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and evidenced by the Regulation S Master GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Under general principles of Belgian banking secrecy, Euroclear and Clearstream, Luxembourg may not disclose any information about a participant's account or positions in such accounts without having first obtained such participants prior written authorisation.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, Luxembourg and DTC none of Euroclear nor Clearstream, Luxembourg nor DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Issuer, the Selling Shareholders, the Managers any transfer agent, the registrar, the Depositary, nor any affiliate of them or their respective agents, will have any responsibility for the performance of Euroclear or Clearstream, Luxembourg or DTC or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

GENERAL INFORMATION

1 Responsibility

- 1.1** The Issuer and the Selling Shareholders accept responsibility for the information contained in this prospectus. To the best of the knowledge and belief of the Issuer and the Selling Shareholders, which have taken all reasonable care to ensure that such is the case, the information contained in this prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.
- 1.2** AMC Consultants (UK) Ltd., whose registered address is at 7 Bridge Avenue, Maidenhead, Berkshire SL6 1RR, United Kingdom, accepts responsibility for its CPR and its letter set out in the CPR. To the best of the knowledge of AMC Consultants (UK) Ltd. (which has taken all reasonable care to ensure that such is the case) the information contained therein is in accordance with the facts and contains no omissions likely to affect its import.

2 Corporate Information

- 2.1** The Issuer was incorporated under Dutch Law in The Netherlands on 6 November 2006, as a public company with limited liability under the name ShalkiyaZinc N.V. with registration number 27293522.
- 2.2** The principal legislation under which the Issuer operates is Dutch law.
- 2.3** The Issuer's statutory seat is in Rotterdam, The Netherlands, and its registered office is at 2, Martinus Nijhofflaan, 2624 ES Delft, The Netherlands (which is where the register of members may be inspected). (Tel. No. + (31) 15 78 90 192).
- 2.4** The Issuer's founding shareholders are the Selling Shareholders, whose registered offices are at 2, Martinus Nijhofflaan, 2624 ES Delft, The Netherlands.
- 2.5** As of the date of its incorporation, the Issuer's auditors are Deloitte Accountants B.V., a member of the Royal Netherlands Institute of Chartered Accountants (*Koninklijk Nederlands Instituut voor Registeraccountants*), whose address is Orlyplein 10, Postbus 58110 (P.O. Box) 1040 HC Amsterdam, The Netherlands.
- 2.6** The Company's auditors are Deloitte LLP, whose address is Furmanov Street, 240-V, Almaty, 050059, Kazakhstan.

3 Share Capital of the Issuer

- 3.1** The shareholders of the Issuer resolved by written resolution dated 8 November 2006:
- 3.1.1 to issue, in accordance with article 6, paragraph 1, of the Issuer's Articles of Association, 1,150,000 new Shares, having a par value of €0.01 each;
- 3.1.2 to the extent that the payment for the new Shares exceeds the total nominal value of such new Shares, such excess value be recognised as share premium (*agio*) and the share premium account of the Issuer be credited accordingly; and
- 3.1.3 to waive pre-emptive rights in respect of the above issuance of new Shares in accordance with article 6, paragraph 7, of the Articles of Association of the Issuer.

4 Other Directorships

In addition to their directorships of the Issuer (in the case of the Directors), the Directors and Senior Managers hold or have held the following directorships, other (in the case of the Directors) than of subsidiaries of the Issuer, and are or were members of the following partnerships, within the past five years.

<u>Director's Name</u>	<u>Current directorships and partnerships</u>	<u>Previous directorships and partnerships</u>
Graham McCartney	No other current directorships or partnerships.	Director (Metals & Mining), ING Structured Finance Managing Director, Gmac Consulting
Rifat Rizoyev	General Director, Betpak Dala	2001 - 2002 Deputy Director of Tobol Trade 2002 - 2005 Deputy Director of OJSC MAA
Zhaksylyk D. Zharimbetov	Member of Board of Directors, Bank TuranAlem	Vice President on Economy and Commerce, OJSC KEGOC President, OJSC KrasnoyarskKraiUgol
Marat Sarkytbayev	Chairman of the Board of Directors of JSC Araltuz	1996 - present time Chairman of the Board of Directors of JSC Araltuz 1999 - 2002 President of Astana Holding 2001 - 2005 Chairman of the Board of Directors of SOJSC CaspiNeft TME
Samat Kazymov	No other current directorships or partnerships.	2000 - 2003 Risk Department Director, JSC TemirBank
Henk van Wijlen	Managing Director, Pan-Invest B.V., trust office in Delft, The Netherlands	Director of various companies registered at 2, Martinus Nijhofflaan, 2624 ES Delft and Puccinidreef 13, 2253 SI Voorschoten, The Netherlands
Assylbek Abuov	No other current directorships or partnerships.	No other directorships or partnerships within the past 5 years.
Ramilya Azelgareyeva	No other current directorships or partnerships.	No other directorships or partnerships within the past 5 years.

4.1 Save as described below, within the period of five years preceding the date of this prospectus none of the Directors or Senior Managers:

4.1.1 has had any convictions in relation to fraudulent offences;

4.1.2 has been a director or senior manager of any company at the time of its bankruptcy, receivership or liquidation; or

4.1.3 has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional authorities) or has been disqualified by a court from acting as director of a company or from acting in the management or conduct of the affairs of a company.

4.2 None of the Directors or Senior Managers has any potential conflicts of interests between their duties to the Issuer and their private interests or other duties.

5 Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by a member of the Group within the two years immediately preceding the date of this prospectus and are, or may be, material; or have been entered into at any time by any member of the Group

and contain provisions under which any member of the Group has an obligation or entitlement which is, or may be, material to the Group as at the date of this prospectus:

- 5.1 The Underwriting Agreement dated 8 December 2006 between the Issuer, the Selling Shareholders and the Managers providing for the underwriting of the Global Offer, and as described in “Subscription and Sale — Underwriting Arrangements”.
- 5.2 The Deposit Agreement to be dated on or about 13 December 2006 between the Issuer and the Depositary, as described in “*Terms and Conditions of the Global Depositary Receipts*”.
- 5.3 The Deed Poll to be dated on or about 13 December 2006 to be executed by the Issuer in favour of the holders of the GDRs which provides that, if the Issuer fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any holder of the GDRs may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of deposited Shares to which the GDRs which it holds relate.
- 5.4 The Company’s Subsoil Use Contracts. See “*Business Description — The Company’s subsoil use contracts*”.
- 5.5 The Company’s long-term loans with Bank TuranAlem, a Kazakhstan bank, under which the Company’s properties have been pledged as security to Bank TuranAlem. See “*Operating and Financial Review and Results of Operations of the Company — Liquidity and Capital Resources — Capital resources*”.

6 Consents

- 6.1 ING Bank N.V., London Branch and Aton International Limited have each given and have not withdrawn their written consent to the inclusion in this prospectus of their names and the references thereto in the form and context in which they appear.
- 6.2 AMC Consultants (UK) Ltd. has given and has not withdrawn its written consent to the inclusion of its report set out under “*Annex C — Competent Persons’ Report*” and the references to its report and its name in the form and context in which they are respectively included and has authorised the contents of its report for the purposes of paragraph 5.5.4R(2)(f) of the prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004.
- 6.3 Deloitte LLP, Kazakhstan, which is a member of the Chamber of Auditors of the Republic of Kazakhstan, has given and has not withdrawn its written consent to the inclusion of its accountant’s reports included in the Financial Statements on pages F-5 and F-32 of this prospectus in the form and context in which they are included, has authorised the contents of its reports for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules and item 23.1 of Annex X of the Commission Regulation (EC) 809/2004, and has accepted responsibility for these accountant’s reports, having declared that it has taken all reasonable care to ensure that the information contained in these reports is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. These statements are required by Annex X, Items 10.2 and 23.1 of the Commission Regulation (EC) 809/2004 for the purposes of complying with this provision and for no other purpose.

7 General

- 7.1 The financial information concerning the Company contained in this prospectus does not constitute the accounts of the Issuer.
- 7.2 The Global Offer is being underwritten in full by the Managers pursuant to the Underwriting Agreement, as described in “*Subscription and Sale — Underwriting Arrangements*”.
- 7.3 Linklaters has advised the Managers solely in relation to the Underwriting Agreement and related arrangements and will deliver a legal opinion solely in relation thereto.
- 7.4 The Managers’ addresses are:

ING Bank N.V., London Branch
60 London Wall
London EC2M 5TQ
England

Aton International Limited
Office 201, 2nd Floor, Egli Building
2 Vasileos Pavlou Str.
CY-1096 Nicosia,
Cyprus

- 7.4** The security numbers for the Regulation S GDRs offered in the Global Offer and the Rule 144A GDRs (to the extent any may be issued in the future) are as follows:

	<u>Regulation S GDRs</u>	<u>Rule 144A GDRs</u>
CUSIP:	819267204	819267105
ISIN:	US8192672041	US8192671050
Common Code:	027860532	027860443
PORTAL:	SHAZYP	SHAZYP
SEDOL:	B1L07G0	B1L07Y8

The London Stock Exchange trading symbol for the GDRs is “SKZ”.

8 Documents For Inspection

- 8.1** Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of the Lead Manager at 60 London Wall, London EC2M 5TQ, England:
- 8.1.1 the Articles of Association of the Issuer;
 - 8.1.2 the Auditors’ Reports of Deloitte LLP, Kazakhstan on the Company’s Financial Statements set out on pages F-5 and F-32 in this prospectus;
 - 8.1.3 the Annual Financial Statements of the Company for the three years ended, and as at, 31 December 2003, 2004 and 2005;
 - 8.1.4 the Interim Financial Statements of the Company for the six months ended, and as at, 30 June 2006 and 2005;
 - 8.1.5 the Competent Persons’ Report (CPR) by AMC; and
 - 8.1.6 this prospectus dated 8 December 2006.

DEFINITIONS

The following definitions apply throughout this prospectus unless the context requires otherwise:

“Additional GDR Rights”	additional rights which are not attributable to the Deposited Shares represented by a Holder’s GDRs
“Additional GDR Rights Requests”	any Holder’s instructions to subscribe for Additional GDR Rights
“Admission”	Admission to listing and trading (a reference to Admission becoming “effective” is to be construed in accordance with the Listing Rules)
“AFM”	the Dutch Authority for the Financial Markets
“Agents”	the agents appointed by the Depositary for the purpose, <i>inter alia</i> , of making distributions to the Holders
“AMC”	AMC Consultants (UK) Ltd.
“Articles of Association” or “Articles”	the articles of association of the Issuer
“Closing Date”	on or about 13 December 2006
“Conditions”	the Terms and Conditions of the GDRs
“Custodian”	ING Securities Services
“DCC”	Dutch Civil Code (<i>Burgerlijk Wetboek</i>)
“Deed Poll”	the deed poll described in paragraph 10.3 of “General Information”
“definitive GDRs”	GDR certificates in definitive registered forms
“Deposit Agreement”	the deposit agreement dated on or about 13 December 2006, described in “Terms and Conditions of the GDRs”
“Depositary”	The Bank of New York
“Deposited Property”	the Deposited Shares and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares
“Deposited Shares”	Shares deposited with the Depositary
“Directors”	the members of the Supervisory and Management Boards of the Issuer
“Dispute”	any disputes arising in connection with the GDRs
“Dutch Code”	The Dutch Corporate Governance Code
“EU”	the European Union
“FSA”	The Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of FSMA
“FSMA”	Financial Services and Markets Act 2000, as amended
“FSU Classification”	the FSU system of classification of mineralisation
“GDRs”	global depositary receipts
“General Meeting”	general meeting of shareholders of ShalkiyaZinc N.V.
“Global Offer”	the offer of GDRs to institutional and certain other investors described in “Subscription and Sale”
“Group”	the Issuer, the Company and their subsidiaries and subsidiary undertakings, from time to time
“IFRS”	International Financial Reporting Standards
“Instruction Date”	the date and time specified by the Depositary for the conclusion of the Primary GDR Offering

“Issuer”	ShalkiyaZinc N.V.
“JORC Classification Code”	the method of classification based on the 2004 Australasian Code of Reporting of Mineral Resources and Reserves
“Kazakhstan”	the Republic of Kazakhstan
“KCRR”	Kazakhstan Classification of Reserves and Resources
“KEGOC”	the state-owned Kazakhstan Electricity Grid Operating Company
“Kantau Plant”	Zinc and lead ore processing plant at Kantau owned by ShalkiyaZinc at which the Company processes zinc and lead ore into zinc and lead concentrates
“KZT” or “Tenge”	the lawful currency of Kazakhstan
“Lead Manager”	ING Bank N.V., London Branch
“Listing Rules”	the rules and regulations made by the FSA under Part VI of FSMA
“London Stock Exchange”	London Stock Exchange plc
“Managers”	ING Bank N.V., London Branch and Aton International Limited
“Master GDR”	the GDR evidenced by a single Regulation S Master GDR in registered form
“Maximum Additional Subscription”	the maximum number of Additional GDR Rights that such Holder is prepared to accept
“NBK”	the National Bank of Kazakhstan
“NUP”	Natural Use Permit
“Official List”	the Official List of the FSA
“Offer Price”	the price per GDR at which GDRs are to be made available under the Global Offer
“Over-allotment Option”	the arrangement pursuant to which the Stabilising Manager may, acting as principal, acquire or procure acquirers for a number of additional GDRs, representing additional Shares made available by the Selling Shareholders
“Over-allotment GDRs”	a number of GDRs to be made available in the Global Offer pursuant to the Over-allotment Option
“Pre-Release”	the execution or delivery of GDRs or the issue of interests in a Master GDR prior to the receipt of the Shares
“Pre-Releasee”	the legal entity to whom GDRs or Deposited Property are to be delivered in the event of a Pre-Release
“Primary GDR Rights Offering”	the offering of rights pursuant to Condition 7(i) of the Conditions
“Proceedings”	any legal action or proceedings arising out of or in connection with the GDRs
“Prospectus Directive”	Directive 2003/71/EC
“Prospectus Rules”	rules promulgated by the FSA under section 73A FSMA
“Register”	the books of the Depositary registering the Holders of the GDRs
“Regulation S”	Regulation S under the US Securities Act
“Relevant Member State”	the relevant member State of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC
“Selling Shareholders”	Zinc Investments I B.V., Zinc Investments II B.V. and Zinc Investments III B.V.

“Shares”	ordinary shares of €0.01 each in the capital of the Issuer
“Stabilising Manager”	ING Bank N.V., London branch
“Subsoil Law”	Edict No. 2828 of the President of the Republic of Kazakhstan “Concerning Subsoil and Subsoil Use” adopted on 27 January 1996
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK holders”	holders of the Shares or the GDRs and absolute beneficial owners of the Shares or the GDRs who are resident and, in the case of individuals only, ordinarily resident and domiciled in the UK for tax purposes
“Underwriting Agreement”	the underwriting agreement dated 8 December 2006, described in “Subscription and Sale — Underwriting Agreement”
“US dollar” or “US \$”	the lawful currency of the United States
“US Exchange Act”	the United States Securities Exchange Act of 1934 (as amended)
“US Securities Act”	the United States Securities Act of 1933 (as amended)
“WUP”	Water Use Permits
“1999 Amendments”	Law No. 467-1 “Concerning the Introduction of Amendments and Additions to Several Legislative Acts on the Subsoil and Petroleum Operations in the Republic of Kazakhstan
“2001 Model Contract”	the Model Contract for Conducting Subsoil Operations in the Republic of Kazakhstan

GLOSSARY

“°C”	degrees Celsius
“acid”	an igneous or volcanic rock containing more than about 60% silica (SiO ₂) by weight, most of the silica being in the form of silicate minerals, but with the excess of about 10% being free quartz
“arsenopyrite”	the mineral FeAsS
“Balance Reserves”	Once a deposit is considered to be ready for mining, an official reserve is calculated and it becomes part of the mining licence. Under the terms of the licence, the official reserve is classified as a Balance Reserve and is reduced each year according to the production from the mine. See Annex B.
“Ball mill”	A steel cylinder filled with steel balls into which crushed ore is fed. The cylinder is rotated, causing the balls to cascade and grind the ore.
“Boom”	a telescoping hydraulically powered steel arm on which hydraulically operated drills and man baskets can be mounted.
“breccia”	clastic rock made up of angular fragments of such size that an appreciable percentage of rock volume consists of particles of granule size or larger
“carbonate”	refers to a carbonate mineral such as calcite CaCO ₃
“Category B”	A Kazakh Reserves category, fully described in Annex B
“Category C ₁ ”	A Kazakh Reserves category, fully described in Annex B
“Category C ₂ ”	A Kazakh Reserves category, fully described in Annex B
“Category P”	Mineralisation extrapolated beyond more definable reserves. The category is subdivided into three sub-categories P ₁ to P ₃ , with the level of confidence decreasing progressively from sub category 1 to 3
“Cells”	cells are the containers in which the electrolytic process for formation of metal takes place.
“channel samples”	continuous rock-samples, where an even channel is cut into the rock to obtain the sample. If competently sampled, the quality of such sampling is comparable to drill-hole assays
“Concentrate”	material that has been processed to increase the percentage of the valuable mineral to facilitate transportation and downstream processing.
“Concentrator”	a milling plant that produces a concentrate of the valuable minerals or metals.
“Cone Crusher”	a machine which crushes ore between a gyrating cone or crushing head and an inverted, truncated cone known as a bowl.
“Crosscut”	a horizontal opening driven from a shaft at (or near) right angles to the strike of a vein or orebody.
“cut-off grade”	lowest grade of mineralised material considered economic, used in the calculation of ore resources
“deposit”	coherent geological body such as a mineralised body
“Dilution”	waste or sub-economic mineralised material that is mined with the ore as an undesired consequence of mining.
“dip”	the angle at which layered rocks, foliation, a fault or other planar structures are inclined from the horizontal.

“drive”	an underground excavation within the mine directed along the strike of the orebody.
“exploration”	method by which ore deposits are evaluated
“extrusive”	said of igneous rock that has been erupted onto the surface of the Earth. Extrusive rocks include lava flows and pyroclastic material such as volcanic ash
“fault”	surface of rock fracture along which has been differential movement
“feasibility study”	an extensive technical and financial study to assess the commercial viability of a project
“feldspar”	the most important group of rock forming silicate minerals, with end-members, alkali feldspar $KAlSi_3O_8$, sodium feldspar $NaAlSi_3O_8$ and calcium feldspar $CaAl_2Si_2O_8$
“flotation”	a milling process in which valuable mineral particles are induced to become preferentially attached to bubbles and float as others material sink
“fold”	a flexure in rocks
“footwall”	rock mass below a fault, vein, bed or mineralisation
“FSU”	Former Soviet Union
“galena”	important sulphide ore of lead, PbS
“geochemical”	prospecting techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing
“geophysical”	prospecting techniques which measure physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies for further testing
“grade”	the amount of valuable material in a specific volume of rock; typically expressed as grams per tonne for precious metals and as a percentage for base metals
“Hoist”	the machine used for raising and lowering the cage, skip or other conveyance in a shaft
“igneous”	said of a rock or mineral that solidified from molten or partly molten material, i.e., from a magma
“Inferred Mineral Resource”	mineral resource inferred from geoscientific evidence, drill holes, underground openings or other sampling procedures where the lack of data is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability.
“Infill Drilling”	drilling within a group of previously drilled holes to provide a closer spaced pattern to define more accurately the parameters of the orebody.
“intermediate”	the composition of igneous or volcanic rocks whose composition lies between those of basic and acid rocks
“Isamill”	a ball mill utilising small ceramic balls in place of steel balls to grind particles to very small sizes
“Jaw Crusher”	a machine in which rock is broken by the action of steel plates coming together and moving apart.

“JORC Classification Code”	Guidelines for estimating ore resources and reserves prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy.
“JORC Reserves” or “JORC Resource”	reserves or resource, as the case may be, as determined under the JORC Classification Code
“Kg”	kilogramme
“kt”	kilotonnes
“KW”	kilowatt
“kWh”	kilowatt hour
“kV”	kilo-volt
“Measured Mineral Resource”	the mineral resources for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence.
“metallurgical”	describing the science concerned with the production, purification and properties of metals and their applications
“m”	metre
“m ³ ”	cubic metre
“mill”	equipment used to grind crushed rocks to the desired size for mineral extraction
“Mining Reserves”	geological reserves minus dilution and losses
“mineralisation”	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
“mineral resource”	a tonnage or volume of rock or mineralisation of intrinsic economic interest.
“Mineral”	a natural, inorganic, homogeneous material that can be expressed by a chemical formula.
“Mining dilution”	see “Dilution”
“mm”	millimetre
“Mt”	million tonnes
“Mtpy”	million tonnes per annum
“MW”	mega watt
“NPV”	net present value
“Off Balance Reserves”	Off Balance Reserve is generally low grade ore that can be mined to take up spare processing plant capacity and boost production. This is the equivalent of incremental ore in Western mining terminology. See Annex B.
“open-pit”	a large scale hard rock surface mine
“ore”	a mineral or mineral aggregate containing precious or useful minerals in such quantities, grade and chemical combination to make extraction economic.
“orebody”	a natural concentration of valuable material that can be extracted and sold at a profit.
“Orepass”	vertical or inclined passage for the downward transfer of ore connecting a level with the hoisting shaft or a lower level.

“ore reserve”	under the JORC reporting system, the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into Probable and Proven
“ounce”	troy ounce; equal to 31.1035 grammes
“outcrop”	a rock exposure on surface
“Plant”	a building or group of buildings in which a process or function is carried out; at a mine site it will include warehouses, hoisting equipment, compressors, maintenance shops, offices and the mill or concentrator.
“plunge”	a fold is said to plunge if the axis is not horizontal
“polymetallic”	refers to a mineral deposit or occurrence with several metal sulphides, common metals include Cu, Pb, Zn, Fe, Mo, Au and Ag
“precious metal”	gold, silver and platinum group minerals
“Probable Reserves”	valuable mineralisation not sampled enough to accurately estimate the terms of tonnage and grade.
“Proven reserves”	reserves that have been sampled extensively by closely spaced diamond drill holes and developed by underground workings in sufficient detail to render an accurate estimation of grade and tonnage.
“Pulp”	pulverised or ground ore suspended in a liquid
“pyroclastic”	produced by explosive or aerial ejection of ash, fragments, and glassy material from a volcanic vent
“pyrite”	an iron sulphide mineral with the formula FeS ₂
“quartz”	Silica group of minerals
“recovery”	proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present
“reserves” or “Reserves”	those parts of mineral resources for which sufficient information is available to enable detailed or conceptual mine planning and for which such planning has been undertaken. Classed as either proven or probable. Under the Kazakh classification system, mineralisation that satisfies a number of specific economic criteria and is classed as categories A, B, C ₁ and C ₂ , with decreasing levels of confidence.
“resources” or “Resources”	all of the potentially economic minerals in a defined area based on points of observation and extrapolations from those points. Potential minerals are defined as minerals which have been or could be beneficiated to give a quality acceptable for commercial usage in the foreseeable future.
“Rockbolting”	the act of supporting openings in rock with steel bolts anchored in holes drilled especially for that purpose.
“Room and Pillar”	a mining method where regular small sections of the orebody are not mined but are left as pillars to support the larger openings as rooms surrounding the pillars

“rhyolite”	a fine-grained extrusive igneous rock, often with a sugary texture, consisting of essential quartz, alkali feldspar and one or more ferromagnesian minerals
“sandstone”	detrital sedimentary rock in which particles range from 1mm to 2mm
“sedimentary”	rocks formed from material derived from pre-existing rocks by processes of denudation
“shaft”	vertical or inclined excavation into mine workings
“stockwork”	a three-dimensional network of planar or irregular veinlets closely enough spaced that the whole mass is considered to be mineralised
“Stope”	an excavation in a mine from which ore is being, or has been, extracted.
“stoping”	the mining term for large-scale extraction of ore from beneath the ground
“Strike”	the direction or bearing from true north, of a vein or rock formation measure.
“strike length”	the longest horizontal dimension of an ore body or zone of mineralisation
“sulphide”	mineral containing sulphur in its non-oxidised form
“Syncline”	a down-arching fold in bedded rocks
“t” or “tonne”	metric tonne, equivalent to 2,204.62 pounds
“tailings”	the waste material produced from ore after economically recoverable metals or minerals have been extracted. Changes in metal prices or improvements in technology can sometimes make the tailings economic to reprocess at a later date.
“tectonic”	a structural feature
“terrigenous”	sediments formed and deposited on land
“Tertiary”	period of geologic time from about two to 65 million years
“Thickener”	a large, round tank used in milling operations to separate solids from liquids; clear fluid overflows from the tank and rock particles sink to the bottom.
“tpy”	tonnes per year
“treatment plant”	a plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals
“underground working”	mine openings for evaluation for ore extraction excavated beneath the ground surface
“vein”	a tabular deposit of minerals occupying a fracture, in which particles may grow away from the walls towards the middle
“Vibrating Screen”	device for separating granulated material into fractions of different grain size, where the working element screen or grid vibrates with high frequency and low amplitude.
“weathering”	the breakdown of rocks and minerals in the near-surface environment by the action of physical and chemical processes, in the presence of air and water.

ANNEX A

KAZAKHSTAN

Annex A contains extracts from publicly available documents and other publications released by, and presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. The Issuer has relied on the accuracy of this information without carrying out an independent verification of the accuracy of such information.

Introduction

Kazakhstan is a sovereign democratic republic and the ninth largest country in the world. The capital, Astana, is located in central Kazakhstan. However Almaty, in the south east of the country, is the principal financial centre in the country and its largest city.

Kazakhstan has significant energy and mineral resources, including some of the world's largest reserves of barite, lead, tungsten and uranium; large reserves of chromites, silver, zinc, copper, gold and iron; sizeable reserves of oil and gas. During the Soviet period, significant industries were developed, including metal processing, chemicals, textiles and food processing.

After the 2005 re-elections, President Nazarbayev opened his new term in office with a promise to put Kazakhstan among the 50 'most competitive' countries in the world. Market-based economic reforms began in 1991, including the implementation of a significant privatisation programme, the promotion of foreign direct investment, particularly in the oil and gas sector, and the introduction of an extensive legal framework. In recent years, Kazakhstan has experienced strong economic growth, with GDP increasing by 9.3% in 2003, 9.4% in 2004 and 9.4% in 2005. Kazakhstan was the first among CIS countries to be granted 'market economy status' by the European Union (the "EU") and the United States. In September 2002, Kazakhstan became one of the first countries in the FSU to receive an investment-grade credit rating from a major international credit rating agency, when Moody's rated Kazakhstan's foreign currency bonds and notes at Baa3. A year later, Fitch upgraded Kazakhstan's local currency rating to BBB+/Stable.

Reforms aimed at moving Kazakhstan further toward a full market economy continue. Kazakhstan has undertaken one of the more successful pension reform programmes amongst its peer group. Financial Services Administration, which regulates the Kazakhstan financial markets is implementing EU harmonising regulations. Headway has also been made in privatisation, liberalisation of capital controls and tax reforms.

Area and population

Kazakhstan is located in Central Asia and is bordered by Russia, China, the Kyrgyz Republic, Uzbekistan, Turkmenistan and the Caspian Sea. It is the second largest country by territory of the CIS after Russia formed following the collapse of the FSU, covering two time zones and an area of 2.7 million square kilometres, the same size as Western Europe. Kazakhstan is relatively sparsely populated with around 15 million people as at 31 December 2005 and an average population density of less than 6 people per square kilometre. The population of Kazakhstan is very ethnically diverse. Kazakhs are the largest among the country's many different ethnic groups, accounting for more than half of the population. More than a quarter of the population are Russians. Other principal ethnic groups include Ukrainians, German, Uzbek, Tatars and Uigurs.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh is the state language, spoken by more than half the population. Russian, however, enjoys equal status, spoken by the majority of the population and officially recognised for use in State and local government matters. The literacy of the population is near 100%.

Political structure

Executive branch

Kazakhstan is a constitutional republic with a presidential form of governance. Under the Constitution, ratified by referendum in 1995, the President is the head of State and of the country's armed forces. The President also has primary responsibility for domestic and foreign policy and represents Kazakhstan in international relations, including the negotiation and execution of international treaties. The President has the power, in certain circumstances, to dissolve Parliament, issue enforceable decrees and orders (provided they are consistent with the Constitution), determine the priority of legislation before Parliament and call a national referendum on matters of special importance.

Under the Constitution, the President has significant powers of appointment, such as the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition the Governor of Kazakhstan's Central Bank, the NBK, is appointed and removed by the President subject to the approval of Parliament.

The Constitution provides that the President be elected by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment.

The current President of Kazakhstan, Nursultan Nazarbayev, was elected upon the formation of the newly independent State in December 1991 and held the position of head of State since then. He was last re-elected in December 2005 for an additional term.

The executive branch of the Government comprises the Prime Minister, currently Mr. Danial Alhmetov, deputy prime ministers and ministers as members of the cabinet. The Government serves a term of five years and is formed by the President, based on recommendations of the Prime Minister. The executive branch is automatically dissolved after each presidential election, to allow for the formation of a new administration by the incoming President. Responsibility for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy and implementing social policy falls on the executive branch, although neither the Prime Minister nor the cabinet are members of Parliament.

Although the Constitution provides for separation of powers, the President exercises considerable control over all three branches of government and determines national policy priorities. The Organisation for Security and Cooperation in Europe has criticised both of Kazakhstan's past two elections as falling below international standards.

Legislative branch

The current Parliament of Kazakhstan has a bicameral structure, with the Senate comprising 32 members indirectly elected by the regions and 7 members appointed by the President. The Mazhilis (the lower house) comprised of 77 members elected on a regional constituency basis. The pro-presidential parties include People's Coalition of Kazakhstan (comprising Otan and Asar parties), Civic Party of Kazakhstan and Kazakhstan Agrarian Party (AIST). Opposition is comprised of the Democratic candidate of Kazakhstan, Nagyz Ak Zhol, the communist Party of Kazakhstan and other.

International Relations

Kazakhstan's position in the international community

The Government's medium-term economic program considers further integration into the international economy via accession to the World Trade Organisation in 2007 to be a key priority. Kazakhstan has shown flexibility in adjusting to the WTO's rules and will liberalise foreign access to its financial markets (foreign bank branches will be permitted in the country). Restrictions on foreign fixed capital investments are planned to be abolished, which is particularly important for metallurgy which attracts significant foreign investment.

Kazakhstan has established diplomatic relations with over 120 countries and is a member of 64 international bodies such as the United Nations, the International Monetary Fund, the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the EBRD, the International Finance Corporation, and many others. The country also seeks to chair the Organisation for Security and Cooperation in Europe. Kazakhstan cooperates with the EU in various scientific and environmental programmes, through a Partnership and Cooperation Agreement, which came into force in 1999. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme, under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia.

Kazakhstan is granted both standby and extended fund facilities by the IMF in connection with the previously followed stabilisation programme.

As of 31 December 2003, Kazakhstan had signed double taxation treaties with over 30 countries, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

Kazakhstan and CIS cooperation

Kazakhstan's amicable relations with Western nations does not preclude the maintenance of close ties with Russia, supported by significant political and economic integration since its independence from the FSU.

Kazakhstan also continuously supports pan-regional structures such as the CIS. Kazakhstan's export capability, notably for oil, steel, copper and wheat, depends on neighbouring states for access to world markets. In January 1995, Kazakhstan signed a customs union which, amongst other things, provides for the removal of trade tariffs between itself, Russia, Kyrgyzstan and Belarus, which was also executed by Tajikistan in 1999.

In September 2003, a single economic zone was created under an agreement among Kazakhstan, Ukraine, Russia and Belarus. The member states intend to coordinate their fiscal, credit and currency policies. This treaty is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs.

The Kazakhstan Economy

Overview

Due to the investor-led oil boom which started in 2000, oil now accounts for over half of industrial output. Other significant sectors are processing of metals and steel production. As the economy is largely dependant on oil and other sectors are less developed, stimulation of investment into non-oil sectors has been declared a primary objective for the new term.

Driven by increased world demand for oil and high oil prices, Kazakhstan has seen growth in GDP of over 9% over the past 6 years. Economic growth has stimulated employment and resulted in improved living standards. Rising wages are starting to have an upward effect on demand in the consumer goods sector. The stability of the Tenge has also been an important factor in improved living standards. Rising oil prices have boosted the current account and balance of payments into surplus and increased foreign exchange reserves.

For each of the past six years, GDP growth in Kazakhstan has been over 9%, fuelled by increased world demand for oil and high oil prices. Over this period, the general economic situation in Kazakhstan has improved, leading to a strong growth in imports. High oil prices have boosted the current account and balance of payments into surplus and increased foreign exchange reserves.

The following table sets out certain information on Kazakhstan's main economic and financial indicators from 2000 to 2005:

	Average unless otherwise specified				
	2001	2002	2003	2004	2005
Population (millions end of year)	14.9	14.9	15.0	15.0	15.2
GDP (KZT billion)	3,251	3,746	4,612	5,870	7,453
GDP (US\$ billions)	22.2	24.6	30.8	43.2	56.1
GDP per capita (US\$)	1,491	1,659	2,068	2,697	3,739
GDP (per cent. change from the previous year)	13.5	9.8	9.2	9.6	9.4
Volume of Industrial Production (% change from the previous year)	13.5	9.8	8.8	10.1	4.6
Consumer Price Index (% change from the previous year)	6.4	6.6	6.8	6.7	7.6
Trade balance (US\$ millions)	1,320	2,301	3,679	6,785	10,322
Trade balance (% of GDP)	5.9	9.4	11.9	16.7	18.4
Gross Foreign Debt (US\$ millions)	15,157	18,251	22,920	31,941	41,516
Gross Foreign Debt (% of GDP)	68.3	74.8	74.4	78.5	74.0
Total gross direct investment from abroad (US\$ millions)	4,556	4,106	4,624	8,273	6,416
Total gross direct investment from abroad (% of GDP)	20.5	16.8	15.0	20.3	11.4
Gross direct investment from abroad — Mining and Quarrying (US\$ millions)	3,088.9	2,123.4	2,188.3	5,268.4	1,766.4
Budget Deficit (-)/Surplus (per cent. of GDP)	(0.4)	(0.03)	(1.0)	(0.3)	0.6
Unemployment rate (%)	10.4	9.3	8.8	8.6	8.1
Registered unemployment rate (percentage of economically active population)	2.9	2.6	1.8	1.5	1.2
Money incomes of the population (average, per capita) (KZT)	87,779	100,065	115,041	152,932	152,932
Money incomes of the population (average, per capita) (% change from the previous year)	20.4	17.4	14.5	21.5	20.5
Average monthly nominal wage (KZT)	21,183	24,388	28,192	32,652	44,956
Average monthly nominal wage (% change from previous year)	17.0	17.1	15.6	26.5	20.5

Source: The NBK, Statistics Agency of the Republic of Kazakhstan, Ministry of Finance, IMF, International Financial Statistics.

Principal sectors of the economy

Oil and gas related industries are a significant component of the country's industrial base, accounting for over a half of industrial output. Oil production has grown rapidly, fuelled by foreign direct investment since 2000. At the end of 2005, Kazakh proven reserves stood at 3.3% of the world total, making Kazakhstan one of the world's top ten oil-producing nations. 85% of oil is produced by foreign-owned companies, while the rest is produced by Kazmunaigaz, the company formed in 2002 via merger of two State-owned assets.

Kazakhstan owns half of the FSU's lead, tungsten, copper and zinc reserves, one-fifth of its coal reserves, about 90% of chrome reserves and significant gold reserves. Not surprisingly, metallurgy and mineral extraction were a primary focus of Kazakhstan's economy before the Soviet Union collapse, though the mineral products sector remains Kazakhstan's largest employer in recent years, partially due to increased foreign investment flows in that sector.

Taxation

Effective in 2007, taxes affecting foreign investment will diminish, which should stimulate economic growth in certain areas. The VAT rate will be reduced from 16% to 15% in 2007 and then by an extra 1 to 2 percentage points in the coming years. Social tax will be reduced by 30% and a flat tax on personal income will be introduced at 10% — which will make Kazakhstan's tax regime more attractive to foreign investors.

Corporate income tax at a rate of 30%, subject to certain exceptions, is the principal tax in Kazakhstan.

Dividends payable on shares are subject to a 15% withholding tax, subject to any reduction under an applicable double taxation treaty.

For information on taxes payable by subsoil users, see “*Industry Overview — Taxation of subsoil use rights*”.

Currency and Foreign Exchange Regulations

The Tenge was floating freely since 1999 and fully convertible for current account transactions. It is considered a relatively stable currency. Sustained foreign-currency inflows due primarily to increased oil revenues, and the general weakening of the US dollar have caused modest appreciations in the Tenge on world markets in recent years.

Kazakhstan has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating or impose any import restrictions.

New currency regulations were adopted at the end of 2005 for the treatment of the outflow of capital. The new Law on Currency Regulations and Control entered into force on January 13, 2006. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only certain outflowing capital account operations need to be licensed by or registered with the NBK, which intends to further liberalise licensing rules in the next few years. The NBK new currency legislation provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge by 2007, permission for banks to invest abroad and the removal of restrictions on investments in foreign investment grade securities and the openings of accounts in OECD banks. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

ANNEX B

KAZAKHSTAN CLASSIFICATION OF RESERVES AND RESOURCES

Kazakhstan has largely retained the FSU Classification with some minor modifications. In contrast to Western systems, such as the JORC Classification Code, the FSU Classification is more highly structured, having been influenced by the centrally-controlled economy of the FSU. In addition, the Western system is still largely self-regulated and is based on the concept of competent persons, while the FSU Classification is defined in law and forms part of the overall regulations for mineral exploration and mining licenses.

The FSU Classification was developed in the 1940's and updated in 1981. It defines seven categories of ore, divided into two main groups, depending on the degree of exploration that has been completed, as summarised in the chart below:

	Reserves				Resources		
	Explored		Evaluated		Prognostic		
Economic	A	B	C ₁	C ₂	P ₁	P ₂	P ₃
Sub-economic							

Source: *Mining Engineering, March 1994, Serguei A. Diatchkov*

Reserves are calculated from exploration data derived within a specific area and fall into four categories as follows:

Category A

The Reserve must have been comprehensively explored, with the orebody's position, shape and structure fully delineated, together with its mineralogy. This category is based on the highest density exploration grid and will normally include underground exploration within the orebody.

Category B

The principal properties of the orebody must have been determined, including the distribution of types of mineralisation and any large blocks of waste or sub-economic reserves. Exploration should be to such a level that a reliable general configuration of the orebody can be derived, and a mining and processing technology can be selected.

Category C₁

The Reserve may be based on a loose exploration grid, but the general shape and structure of the orebody must have been determined. It is necessary to know the general distribution of the types of mineralisation so that assessment of potential mining and processing options may be made. The ore tonnage is derived from estimates of strike length, dip length and average thickness of the orebody, with allowance for barren blocks being made statistically.

Category C₂

The Reserve may be based on an extremely loose exploration grid, with little data. The limits of the orebody may be defined by extrapolation within known geological structures and from comparison with other similar deposits in the vicinity. The grade and mineral properties of the orebody may be determined from core samples and from comparison with similar mineral deposits in the area. These reserves have only undergone preliminary evaluation and have a low level of reliability.

The FSU Classification system applies no economics to reserves, but mineralisation needs to satisfy a number of economic criteria in order to be included in reserves. However, the degree of exploration completed rather than economics is the predominant factor in classifying reserves into Categories A, B, C₁ and C₂. Reserves are split into economic and sub-economic classes, and may be defined as sub-economic for a number of reasons, including:

- the orebody being too small or too narrow to mine;
- the mineral product being of too low grade or containing high levels of contaminants;

- the geographical setting being unfavourable; and
- mining and/or processing costs being too high.

These, with the additional possibility of the capital cost being too high in relation to future profits, are additional reasons for an ore deposit to be regarded as uneconomic in the West. It is therefore apparent that most of the reserves regarded as being economic under the FSU Classification will also be economic when assessed against Western criteria.

While the classification of reserves under the FSU Classification is based on the level of exploration and orebody definition work completed, the extent of exploration required to meet the criteria will vary depending on the shape of the orebody, its geologic structure and mineral complexity. The FSU Classification therefore groups orebodies according to the following parameters:

Geological structure and mineral complexity:

Group I

Simple non-disseminated deposits of uniform thickness and continuous grade.

Group II

Deposits with complex geology, including irregular thickness, faulting or uneven ore grade.

Group III

Highly complex geology with significant variation in thickness, very uneven grade distribution or faulting.

Group IV

Extremely complex geology, with drastic variations in thickness and grade or intensive faulting.

Shape of the orebody:

Group 1

Layers, beds or seams in large mineral deposits such as coal and dimension stone. Exploration by surface drilling.

Group 2

Stockworks or large massive deposits such as in coal, ferrous, base and precious metals deposits. Exploration by surface drilling and some underground access.

Group 3

Veins and lenses in small or intermediate deposits such as in ferrous, base metals and precious metals deposits. Exploration by surface drilling, underground tunnelling and then construction of vertical and horizontal profiles.

Group 4

Pipes and branching veins in small or intermediate deposits such as in base and precious metals and diamond deposits. Exploration with surface drilling, underground tunnelling and drilling and construction of vertical and horizontal profiles.

Group 5

Small isolated lenses and veins such as in precious metals and diamond deposits. Exploration with a network of underground tunnels and shafts.

Starting at the exploration stage, drill grids are specified for different types of deposits and for different categories of Reserve. From this data, the drill results are first analysed in sections, then simple interpolation between sections on a prismatic or pyramidal basis is applied to generate the Reserve numbers. The system of calculation and the cut-off grade to be used is specified for each type of deposit.

It should be noted that the underlying methodology and major factors such as cut-off grades have not significantly changed since the 1940's. The FSU Classification has not yet embraced the more advanced techniques of geostatistics that are being used in the West, and in many cases cut-off grades used may not be truly applicable to

modern mining techniques. For example, low grade ore which may be amenable to low-cost heap leaching is usually ignored under the FSU Classification.

Most zinc ore deposits will fall into Groups II or III, with an orebody shape in Groups 2 and 3 or in some rare cases Group 4. Even detailed exploration of these orebodies is unlikely to result in reserves in Category A. If the orebody is in Group II, underground exploration on a grid of 80 meters by 40 meters should result in some reserves in Category B. With orebodies in Group III, however, even more detailed underground exploration will only result in reserves in Category C₁. For orebodies in Group II or III, borehole drilling can also provide reserves in the C₁ Category.

In practice, Category A and B ore reserves are usually only found in operating mines where full underground access allows detailed exploration on a close-spaced grid pattern. Zinc exploration properties will usually only report Category C₁ and C₂ reserves, plus Prognostic resources.

Once a deposit is considered to be ready for mining, an official Reserve is calculated and it becomes part of the mining contract. Under the terms of the contract, the official Reserve is classed as Balance Reserve and is reduced each year according to the production from the mine. A company is charged royalties based on the official reserves and these must be fully extracted, and the full royalties paid, over the life of the mine. If this target is not met for some reason, penalties may be incurred.

There is provision for the mining of Off Balance Reserves, which is generally low grade ore that can be mined to take up spare processing plant capacity and boost production. This is the equivalent of incremental ore in Western terminology. A lower rate of royalty is usually paid on Off Balance Reserves when they are mined and, if there is a shortfall in Balance Reserves, it may be possible to offset some or all of that with Off Balance Reserves in order to avoid penalties for failing to meet the terms of the mining contract.

Western companies operating in Russia and the rest of the FSU have so far taken a mixed approach to their reporting of resources and reserves, although most have applied or are in the process of adopting the JORC Classification Code. However, the work performed by FSU geologists and the results that have been derived for deposits under the FSU system, are often more detailed than would be carried out on a similar deposit in the West, since on the other hand, the Western mining companies had limited time and funds compared to those available for deposits in the FSU. The advantage of the JORC Classification Code provides a consistent means of comparing resources and reserves for various deposits located in different regions of the world.

ANNEX C

COMPETENT PERSONS' REPORT (CPR)



AMC Consultants Pty Ltd

ABN 58 008 129 164

20th November 2006

The Directors
ShalkiyaZinc Ltd
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ING Bank N.V., London Branch
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United Kingdom

Dear Sirs,

Competent Person's Report for the Zinc Mining Complex held by ShalkiyaZinc

The report that follows has been prepared by AMC Consultants (UK) Ltd for inclusion in the prospectus to be published by ShalkiyaZinc N.V. in connection with an initial public offering of global depository receipts and the admission of the receipts for listing on the Official List of the UK Financial Services Authority.

Yours Faithfully

A handwritten signature in black ink that reads 'Peter'.

Peter J Reynolds MEP, B App Sc, B Bus, MAusIMM, CIM, AASA

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QUALITY CONTROL

The signing of this statement confirms this report has been prepared and checked in accordance with the AMC Peer Review Process. AMC's Peer Review Policy can be viewed at www.amc-consultants.co.uk.

Project Manager

Peter Reynolds		20 th November 2006
_____	_____	_____
	Signed	Date

Peer Reviewer

Andrew Chuk		20 th November 2006
_____	_____	_____
	Signed	Date

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1 INTRODUCTION

1.1 Purpose

This Report has been prepared by AMC Consultants (UK) Ltd, a wholly owned subsidiary of AMC Consultants Pty Ltd (collectively “AMC”), as an independent review of the mining and processing assets of LLP ShalkiyaZinc Ltd (“ShalkiyaZinc” or “the Company”) in the Republic of Kazakhstan in order to satisfy the requirements of a Competent Person Report (“CPR”) under the Committee of European Securities Regulators guidelines.

ShalkiyaZinc contemplates an Initial Public Offering (“IPO”) on the London Stock Exchange through a listing of professional depositary receipts on the Main Market (or Professional Securities Market) in 2006. AMC was instructed to prepare the CPR for inclusion in an Offering Circular that will be drafted in compliance with the EU Prospectus Directive.

1.2 Capability and Independence

This Report has been prepared by AMC, the signatory to this letter. AMC is an independent consulting group offering a broad range of mining engineering, geotechnical, geological and corporate consulting services to the international exploration, mining and financial services industries. AMC has provided independent technical audits and expert assessment reports for mining companies, insurance companies, banks and investors, including the preparation of independent technical reports acceptable to United Kingdom, Canadian and Australian listing authorities.

AMC’s clients include the world’s leading mining and exploration companies, corporate advisors, financial institutions and insurance companies. In 22 years AMC has completed more than 3500 projects in 72 countries providing a unique resource of global data and experience. AMC employs more than 70 mining professionals and completes more than 300 projects in the industry every year, in more than 70 countries.

The authors of this report are Peter Reynolds, Zygmunt Jakubiak, Richard Wilkinson and Marina Khotuleva. Details of their qualifications and experience are presented in Annexure A to this report.

Neither AMC nor any individual member of its team engaged in the preparation of this CPR has been involved in the preparation, authorisation or issuance of any other part of the Offering Circular.

AMC will be paid a fee for the preparation of this Report. Payment of the fee is not conditional on the contents of the report or the success of ShalkiyaZinc’s contemplated IPO.

1.3 Interests

Neither AMC, nor any of its Directors, staff and sub-consultants who have had any involvement in the compilation of this Report have or have had any material interest in ShalkiyaZinc, the company’s assets, including those that have been reviewed, or the outcome of the IPO. No previous commercial relationship has existed between ShalkiyaZinc and AMC.

1.4 Scope of Work

AMC reviewed the assets in accordance with the scope of work and exclusions and limitations and on the basis of materiality criteria set out in Annexure B to this report.

All opinions, findings and conclusions expressed in this report are those of AMC and its sub-consultants.

1.5 Information Sources

The contents of this CPR are based on reports and data provided by ShalkiyaZinc, site visits and discussions with the management and senior personnel of ShalkiyaZinc. Site visits were made between 21st and 25th July 2006 and included two visits to the currently active underground workings at the Shalkiya Mine, visits to the various surface facilities at Shalkiya, including the proposed concentrator and tailings disposal sites, and a visit to the concentrator and tailings disposal site at Kentau. A half-day visit was also made to the Talap Deposit and the Ogizmuiz crushed stone quarry and plant.

Where resource or reserve figures are given in the body of the report without qualification the terminology used conforms with that of the Kazakh ore reserves methodology and classification system. Where the JORC Code classification system is referenced the variation in usage is qualified in the text to highlight the discrepancy in usage.

AMC has not investigated the legal aspects of ShalkiyaZinc's contracts and agreements. Present and future implications arising from terms and conditions relating to such contacts and agreements have not been investigated. For the purpose of this CPR it is assumed that all contracts and agreements necessary for the legal exploitation of the Shalkiya orebody by ShalkiyaZinc are and will remain in good standing and renewals will be completed as required.

ShalkiyaZinc has warranted in writing that full disclosure of all relevant material information in its possession has been made and that to the best of its knowledge and understanding such information is complete, accurate and true. ShalkiyaZinc has stated that all the information provided may be presented in the CPR and that none of it is regarded as confidential. ShalkiyaZinc has reviewed a draft of the CPR for correction of matters of fact and notification of material omissions.

Such information as is available has been utilised to allow an informed appraisal of the mineral assets and all material used in preparation of this CPR is judged to be reliable. In instances where significant information has been found to be poorly documented or of doubtful reliability, such circumstances have been noted in the body of the CPR.

Unless otherwise stated, all mineral resource and reserve figures are as at 30 June 2006. Metric units of measurement are used throughout this report. All references to dollars are expressed in United States currency.

1.6 Mining Risks

Mining, and in particular underground metalliferous mining and processing, is carried out in an environment where not all events are predictable.

Whilst an effective management team can identify some risks and take measures to mitigate those risks, there is still a possibility for unexpected and unpredictable events to occur. It is therefore not totally possible to remove all risks, or state with certainty that an event that may have a material impact on the operations of the mine, will not occur.

1.7 Glossary of Terms

Defined and technical terms used in this report are set out in the Offering Circular.

2 OVERVIEW

2.1 Location and Setting

ShalkiyaZinc operates a zinc and lead mine at Shalkiya in the Zhanakorgan District of the Kyzylorda Region and an ore processing plant at Kentau in the South Kazakhstan Region. The operations are located close to the northern borders of Uzbekistan and Kyrgyzstan, in the south central area of the Republic of Kazakhstan.

The closest community to the mine is Shalkiya, located 4km to the south. It was constructed in Soviet times to provide homes for miners' families and has a current population of approximately 5,000. Its facilities include a secondary school and medical services.

The Zhanakorgan region supports a population of approximately 68,000 and mainly relies on agriculture to sustain communities at Zhanakorgan, Berlike, Tumenoryk and Shalkiya. Zhanakorgan is the regional centre with a population of around 21,000 and has a hospital and other medical services. It is located 15km to the south west of the mine and is linked to it by both road and rail services.

The Shalkiya area is generally flat with a gentle rise of less than 50m per kilometre to the Karatau Ridge mountain slopes in the north east, typical of steppe landscape. The topography and soils of the region are typical for semi-deserts with generally sparse vegetation. Thicker vegetation is found along river banks where tugai bushes and grass cover predominate.

The Kentau concentrator is located 165km to the south east of the Shalkiya mine and is also on the slopes of the Karatau Ridge.

ShalkiyaZinc is also the owner of the Talap Deposit located on the south western flank of the Karatau Ridge, 30km south-east of the Shalkiya mine. The site is readily accessible by unsealed roads branching off local sealed roads and the nearest railway station is 8 km to the south east, at Besharyk.

The location of the assets is shown in Plate 1.

2.2 Climate

The Shalkiya mine is located in an Asian Steppe area that is characterised by a high fluctuation of daily and annual temperatures, cold but not snowy winters and hot and dry summers.

Average temperatures are above 0° from early March until mid November while temperatures range from +37°C in summer to -26°C in winter. Average annual precipitation is 183 mm but is variable from 70mm in dry years to 200mm in wet years. Highest rainfall occurs in July and the lowest during winter when the thickness of snow cover does not exceed 30cm. Ground freezing does not extend below 250mm and the growing season is around 200 days.

Winds are predominately from north and north easterly directions with typical strengths up to 7 to 9 m/sec (16 to 20 mph).

2.3 Infrastructure

2.3.1 Land Availability

The Shalkiya mine site is situated in an undeveloped area and land for expansion of mining and mineral processing operations is generally available without restriction. As demonstrated by Plates 2 and 3. In particular, suitable land is available at Shalkiya to accommodate the planned 3mtpy concentrator and its associated tailings dam as described in Section 6.3 of this CPR.

The Kentau concentrator is situated on property that is owned by ShalkiyaZinc and is more than adequate in area for the operations carried out on the site.

2.3.2 Road and Rail Access

The Shalkiya mine owns a 27km railway line linking the mine to the railway station at Zhanakorgan. A bitumen surfaced road also links the two centres.

Road and rail services from Zhanakorgan provide transport access to Kentau as well as to the rest of the Republic of Kazakhstan, through Shymkent to Uzbekistan and China and through Kyzylorda to Russia, as shown in Plate 1.

Crushed ore is currently transported by rail to ShalkiyaZinc's concentrator at Kentau, located some 165km to the south east of the mine, the last 44km being over a private rail connection owned by JSC Yuzhpolimetal ("Yuzhpolimetal").

2.3.3 Power Supply

The Company has constructed its own electrical infrastructure consisting of two 16 km 220 kV capacity overhead supply lines from a national grid connection extending to the area of the Shalkiya Mine.

At present the Company obtains electricity from a temporary substation operated by a local supplier, with electricity sourced from the regional electricity market. The temporary substation steps the supply voltage down to 35 and 6kV for reticulation around the mine site through two transformers of 10 kW each.

The power supply at the mine has been upgraded by ShalkiyaZinc by constructing a 220/10/6 kV substation with two transformers of 40 MW each. These facilities are to be commissioned in 2007.

Power requirements for the mine are expected to increase from the current 1.5mW per hour to 3.75mW per hour for the expansion to 1.5mtpy and 11mW per hour at 3mtpy. The new concentrator will require some 30mW per hour.

2.3.4 Water Supply

Water supplies for the mine are available from inflows into the mine workings and surface water bores.

Until the 3mtpy ore processing facility at Shalkiya is built the mine drainage water pumped to the surface will satisfy water requirements. However, when the processing plant is commissioned this water will need to be supplemented by makeup water from water bores. These bores and associated delivery pipelines are already established in an area 16km southwest of the mine and can provide up to 31 thousand m³ of water per day. This should be an adequate supply as Shalkiya have estimated that the processing facility will require 28 thousand m³ of makeup water per day.

2.3.5 Communications

The Shalkiya mine and Kentau concentrator are serviced with landline and mobile phone communications, broadband internet access and mail delivery services.

2.4 Rights to Work

Since 1999 the government of Kazakhstan has awarded subsoil use rights by negotiated contract with mineral producing companies, rather than by issuing licenses. Consequently all commercial subsoil use, including exploration, development, extraction and processing of mineral deposits, must be carried out under the terms of a current negotiated contract with the government of Kazakhstan.

The Shalkiya Contract, awarded by the Ministry of Energy and Mineral Resources of Kazakhstan, became effective on 21 May 2002. It was amended on 26 July 2004 in connection with the renaming of the Company and certain changes to the working programme under the Shalkiya Contract.

The Shalkiya Contract, as amended, sets out the Company's rights and obligations with respect to mining at the Shalkiya deposit and has the term of 45 years expiring on 21 May 2047. The term of the Shalkiya Contract can be extended by written agreement between the parties in accordance with the procedural requirements of Kazakhstan law. Changes to the terms and conditions of the extended contract are allowed under the terms of the Contract. The Company has the right of first refusal to negotiate the extension of the term of the Contract.

As required by its contractual obligations, ShalkiyaZinc has acquired a 6.7km² mining lease covering the Shalkiya mineral deposit. The boundary of that lease is shown in Plate 3.

Other licenses are necessary for ancillary activities. Current licenses held by ShalkiyaZinc as of April 1, 2006 are listed in Table 2.1.

ShalkiyaZinc has also secured the necessary consents for the use of land and groundwater and for the disposal or reuse of mine water.

Table 2.1: ShalkiyaZinc Licenses

<u>Item No.</u>	<u>Series/ No.</u>	<u>License Description</u>	<u>Date of Issue</u>	<u>Validity period</u>
1.	series P No. 883	Governmental license for activity related to turnover of precursors	February 15, 2006	Until December 28, 2009
2.	No. 040004	Governmental license for purchase, storage and utilisation of poisons	April 29, 2004	Unlimited
3.	No. I065300 266	Import license	February 17, 2006	Until December 31, 2006
4.	No. 002592	Governmental license for processing of mineral raw materials	April 22, 2004	Unlimited
5.	01 No. 008280	Governmental license for works in the sphere of architecture, urban construction and construction	March 4, 2002	Unlimited
6.	No. 002593	Governmental license for mining operations and for use of explosion/fire hazardous industrial facilities, electrical power lines and substations, hoisting machines, boilers, vessels and pipelines, which operate under pressure	April 22, 2004	Unlimited
7.	VV No. 050022	Governmental license for production and sales of explosives	May 27, 2005	Unlimited

In 2003 ShalkiyaZinc acquired the Kentau processing plant by outright purchase for \$6.0m from Yuzhpolymetal, who continues to occupy part of the main building for mineral processing purposes.

ShalkiyaZinc is also the beneficial owner of a contract awarding subsoil use rights to the Talap property, 30km south east of Shalkiya. Contract No. 1617 for the property was issued for a 20 year term on 7th December 2004, comprising two years for exploration and 18 years for mining. The holder has subsequently acquired a 3.5km² geological allotment covering the Talap area.

The Company also holds a contract that is in effect until 2024 for the extraction of dolomite at the Ogizmuiz Deposit.

2.5 Material and Non Material Assets

The main assets constituting ShalkiyaZinc's operations are

- the Shalkiya mine site,
- the Kentau ore processing site,
- the Talap deposit, and
- the Ogizmuiz construction materials deposit

The exploration phase at Talap was commenced prior to ShalkiyaZinc's acquisition of the deposit and was completed by the Company. Reserves generated from the exploration data have been recently approved by the regulatory authorities. The development phase has now commenced with a programme for detailed exploration of the deposit being prepared for approval by the authorities. Therefore, although the deposit shows promise, Talap is not considered to be a material asset at this time.

ShalkiyaZinc has commenced open-pit dolomite mining and crushed stone production at the Ogizmuiz deposit, using open pit mining equipment and a crushing and screening plant. The plant commenced operating in March 2006 and processed 45 kt of stone to July. Development of the project is at an early stage and its contribution to ShalkiyaZinc's revenue stream is insignificant compared with that from the Company's core metal mining business. The project is considered to be a non-material asset at this time and is expected to be divested in the near future as the Company focuses on its core metal mining and processing business.

2.5.1 Shalkiya Mine

The Shalkiya mine asset comprises

- an orebody containing ore reserves and resources and other mineralisation, containing zinc and lead metals,
- underground development accessing 14m tonnes of mining reserves,
- an ongoing ore mining operation to extract the reserves and resources, and
- infrastructure in place to support the ore mining operation

A generalised layout of the mine and its infrastructure is shown in Plate 2.

The orebody has been accessed to the +40 m level (relative to sea level, vertical depth of approximately 250 m from the surface) with three vertical shafts, a transportation decline and horizontal mine workings (crosscuts and drives) on the +163m, +100m and +40m levels. The spacing between levels is 60 m.

The major assets at the Shalkiya mine site are listed in Table 2.2.

Expenditure by the previous operator on underground capital development, underground infrastructure and surface infrastructure, including those items listed in Table 2.2, amounted to \$250m.

Table 2.2: Shalkiya Site Major Assets

	Tonnes million	Grade	
		Pb%	Zn%
RESERVES			
Mining Reserve at 3% Zn eq Cut Off	101	1.2	4.0
Plus: Balance Reserve C2 Category at 3% Zn eq Cut Off	15	1.1	4.2
Plus: Off Balance Reserve at 1.4% Zn eq Cut Off	120	0.6	2.7
			<u>Metres</u>
UNDERGROUND CAPITAL DEVELOPMENT			
Horizontal Development			
Level +163m	Access to Production Shaft; access to orebody; underground workshops; power and pumping substations; access to services		4,484
Level +100m	Access to Production Shaft with rail haulage from orepasses; access to orebody; explosives magazine; power substations; access to services		7,297
Level +40m	Access to Production Shaft and towards Service and Hoisting Shafts haulage shaft with rail haulage from orepasses; access to orebody; explosives magazine; power substations; access to services		1,436
Total Horizontal Development			13,217
Vertical Development			
Production Shaft	6.0m diam; equipped for hoisting 1.25mtpy ore can be upgraded to 1.5mtpy; accesses +163m, +100m, +40m levels		233
Service Shaft	7.0m diam; concrete lined; not equipped; intended for man and materials and services		558
Hoisting Shaft	7.5m diam; concrete lined; not equipped; design capacity 3mt ore and 0.4mt waste per year		557
Transportation Decline	Surface to +100m level; size 5m high, 4m wide; gradient 1:15		1,906
Service Rise	4m diam; surface to +40m level		250
Ventilation Rise	6m diam; surface to +100m level		150
Ore Passes	4 passes, delivering ore to +100 Level		334
Total Vertical Development			3,988

	<u>Units</u>
UNDERGROUND MOBILE EQUIPMENT	
Loaders	Includes Toro 301 (2 of), 007 (2) 6
Trucks	Includes MoAZ (4) 5
Mobile Drills	Monomatic (2); Axera 07 (2) 4
Long Hole Drills	Bar and arm, local manufacture 4
Diamond Drill	Boart Longyear, tracked 1
Face Charging Machine	2
Fuel and Lubricants Truck	1

UNDERGROUND INFRASTRUCTURE

- Ore tippler
- Underground workshop
- Dewatering pumps
- Explosives warehouse
- Electric power distribution

SURFACE INFRASTRUCTURE

- KSD-2200E ore crusher and rail loading complex
- Railway to Zhanakorgan
- 220kv power lines
- Water bores and delivery pipelines
- Winder
- Air compressor
- Exhaust ventilation fan
- Run of mine ore crusher
- Crushed ore loadout facility
- Mine office
- Water treatment plant
- Employee accommodation

2.5.2 Kentau Concentrator

The Kentau concentrator processes Shalkiya ore using conventional crushing, grinding and selective flotation methods to produce lead and zinc concentrates. The plant was built with a nominal capacity of 4mtpy. Its capacity in its present configuration has been slightly less than 500k tpy but recent increases in grinding capacity has raised that to be in excess of 600k tpy. Major items of equipment located at the concentrator are listed in Table 2.3.

Table 2.3: Kentau Concentrator Major Equipment Items

		<u>Number of Units</u>
KENTAU CONCENTRATOR MAJOR ASSETS		
Kentau Concentrator Site	Land; all buildings; all equipment except that in 20% of the main concentrator building which is owned and operated by a separate mineral processing company	
Crushing Section		
Ore unloading and storage facility		1
Crushed ore screens	Capacity 200 to 350 m ³ /h	4
Secondary crushers	2.2m diam. cone, 340 m ³ /h	2
tertiary crushers	2.2m diam cone, 200 m ³ /h	2
Grinding Section		
Ball mills	38 m ³	3
	36 m ³	7
	18 m ³	1
	8 m ³	1
Spiral classifiers	double, 3m diam, 12.5m long single, (3m,2.4m) diam, (12.5m, 9.2m) long	2
Hydrocyclones	Various	34
Flotation Section		
Flotation machines	12 cell, cell volume 3.2 m ³	3
	10 cell, cell volume 7 m ³	26
	10 cell, cell volume 6.3 m ³	1
	2 cell, cell volume 3.2 m ³	1
Thickening and Filtration Section		
Thickeners	24.5m diam; surface area 450 m ² ,	3
Concentrate filters	Vacuum drum filters; 40 m ² filtration area.	7
concentrate loadout facility		1

2.5.3 Talap Deposit

In August 2006, the Company completed its exploration programme of the Talap Deposit in accordance with the requirements of the Talap Contract. The relevant ore reserves, completed in June 2006 and estimated in accordance with the Kazakh classification system, have been approved by the State Committee of Reserves. They are listed in Table 2.4.

Talap geology and ore reserve calculations are described in more detail in Annexure C.

ShalkiyaZinc is now in the process of designing a programme to develop the deposit. The Talap site has not previously been developed except for the installation of an exploration shaft. Electric power is available from a 10kV feeder from the main Shymkent to Kyzylorda 220kV transmission line 3 to 5km to the north of the deposit.

2.5.4 Ogizmuiz Construction Materials Deposit

The Ogizmuiz deposit is located 5km south of the Shalkiya mine site on a 14.5 hectare concession. The concession is estimated to contain reserves of 14m tonnes of dolomite in A, B and C1 categories.

Quarried dolomite is processed through a crushing and screening plant of 1mtpy capacity. Power for the project is supplied from the grid to the Shalkiya mine site and process water is obtained from a bore located 500 metres to the West of deposit.

Table 2.4: Talap Balance Reserve Using the Kazakh Methodology and Classification System

	Kazakh Classification Category	Kazakh Balance Reserve at 3% ZnEq Cut-off				
		Quantity Mt	Grade (%)		Contained Metal (000 t)	
			Pb	Zn	Pb	Zn
Asset						
TALAP	Total	11.140	2.4	4.7	262.0	525.0
in categories:.....	C1	7.557	2.5	4.8	186.0	361.0
	C2	3.583	2.1	4.6	76.0	163.0

Source — Compiled by LLP ShalkiyaZinc Ltd

Notes:

- (1) Terminology and classification follow the Kazakh classification of mineral resources
- (2) Reserve is an estimated quantity of in-situ mineralisation satisfying the following criteria (approved by Kazakh regulatory authorities on 15 June 2006):
 - * Sample cut-off grade for reserve delineation — 3% Zn equivalent, where Zn equivalent equals $Zn + (Pb \times 0.5)$, ignoring contents below 0.46% Zn and 0.30% Pb
 - * Minimum width of mineralisation — 1m or minimum accumulation of 1m% for high grade mineralisation in narrow zones, where m% is the width in m multiplied by the grade in %
 - * Maximum width of barren and below cut-off grade partings — 3m
- (3) Mining Reserve is part of the Reserve approved for extraction. It includes both developed and undeveloped reserves. Estimates of tonnages and grades include allowances for expected mining losses and mining dilution with barren and sub-cutoff grade mineralised material. No Mining Reserves have been calculated or approved for Talap.
- (5) All Reserves are 100% attributable to LLP ShalkiyaZinc Ltd.

2.6 Comments and Conclusions

AMC's personnel have visited the site of ShalkiyaZinc's operations and make the following comments

- Climatic conditions in the Shalkiya area can be harsh, but because mining is by underground mining methods and ore processing takes place inside enclosed buildings, the business is not seasonal. AMC does not believe climate is a factor in assessing risk to operations at Shalkiya and Kentau.
- AMC has not carried out due diligence on ShalkiyaZinc's contracts and licenses and has relied in the company's advice as to their comprehensiveness and currency. Nothing has come to AMC's attention to indicate that there is any legal risk to ShalkiyaZinc being able to continue mining and processing operations for the period of its Business Plan.
- The previous owners of the Shalkiya mine invested \$250 million in developing the mine and associated infrastructure, designed to allow the mine to produce at a 3mtpy production rate and to access the first five years of mine production ore reserves. Many of these assets are in good order and will be utilised by ShalkiyaZinc, reducing the current expenditure required to upgrade the mine to be able to achieve that rate.
- ShalkiyaZinc's Talap asset, while not being material at this time, represents a solid economic opportunity to expand the Company's operations in the future.

3 HISTORY OF DEVELOPMENT

3.1 Shalkiya Mining Operations

The Shalkiya lead and zinc deposit is situated in the Akuyuk-Maidantal mineral province and is the most important deposit in the district. Other deposits are at Talap, also owned by ShalkiyaZinc, and Burabai-Zhalgyzagash. The Shalkiya deposit is contained in a Famenian (uppermost Devonian) age carbonate complex and is a typical stratiform occurrence in carbonates. The complex forms a faulted overturned syncline. There are two main ore bearing sub members, hosting the Upper and Lower Orebodies respectively. The lead-zinc mineralisation extends for 7 km in a south easterly strike direction and is 500 to 1,300 metres wide. The orebody structure and shape is described in more detail in Section 4 of this CPR and is illustrated in Plates 6 to 10.

The deposit can be considered to be a deformed Mississippi-Valley (MVT) Pb-Zn type orebody.

3.1.1 Exploration and Reserves

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.

Exploration in the North-Western section was conducted in three stages. Preliminary wider spaced exploration involving 25,964m of core drilling was carried out in 1964 to 1968, followed by detailed exploration in 1972 to 1975 with 38,682m of diamond core infill drilling, geophysical drill hole logging, underground exploration, detailed mineralogical and lithological studies, test work on laboratory and bulk samples, detailed hydro-geological studies, exploration for groundwater for industrial and potable use, geotechnical studies and resource estimations. The final detailed resource delineation phase was completed in 1976-1979, resulting in B reserve category being drilled to 40m × 80m spacing and C1 category to 80m × 80m or 80m × 100m.

The South-Eastern section was also explored in three stages. The same two mineralized horizons that had been found in the North Western section were traced and delineated by surface core drilling to a depth of 800m, generally on a 100 m x 200m grid.

Overall, exploration work on the Shalkiya orebody has involved 464,000 metres of core drilling, the processing of 74,000 core samples and 8,000 channel samples, and 38,000 metres of geophysical profiling.

Details of work completed to delineate the deposit are shown in Table 3.1.

The large database that has been generated for the Shalkiya deposit has been the basis of two sets of reserve estimates prepared using the Kazakh methodology and classification system.

The older set was prepared for the whole deposit in 1995 using a cut-off grade of 1.4% Zn equivalent (“Zn eq”) where Zn eq was calculated using the formula $Zn+(Pb*0.45)$. The regulatory authorities formally approved this resource in 1995.

Table 3.1: Shalkiya Mineral Deposit Historical Exploration Work Completed

Activity	North-Western Section					South-Eastern Section					
	1962-1963	1964-1968	1972-1975	1977-1979	1986-1994	Total	1979-1983	1983-1985	1983-1987	1987-1994	Total
Topographic Surveys (km ²)		6	5			11			13		13
Geological mapping (km ²)		20				20				18	18
Pitting (m)	46	289				335					
Trenching (m ³)	395	472				867	24,993				24,993
Shallow Drilling (m)	1,044	4,044		2,830		7,918	63,599	9,771	7,713		81,083
Percussion/Open Hole Drilling (m)		15,810		3,671		19,481					
Core Drilling (m)	11,378	25,964	38,682	26,817	42,560	145,401	28,901	58,657	69,655	158,201	315,414
Hydrogeological Drilling (m)		3,136	3,059	557		6,752			583	14,797	15,380
Underground Workings											
Horizontal (m)			761	1,534		2,295					
in mineralisation (m)			264	1,077		1,341					
Vertical (m)			226	654		880					
in mineralisation (m)			76	312	447	835					
Underground Drilling (m)				3,258		3,258					
Geophysical Profiling (m)				18,300		18,300				20,223	20,223
Mineralogical and Petrographic Studies											
Thin sections		510		4,500		5,010			1,340	1,760	3,100
Polished sections		220		515		735			550	1,200	1,750
Core Sampling (number of samples)		8,453	9,047	7,666	2,785	27,951	2,930	7,587	11,326	24,483	46,326
Channel Sampling (number of samples)		140	976	1,700	5,100	7,916	60				60

The most recent estimate based on Kazakh methodology and classification was performed by Almaty based consulting firm LLP Geoincentr. This estimate was conducted in two stages, initially utilising data from the completion of detailed exploration from the North Western section, followed by a similar process for the South Eastern section of the deposit on completion of exploration there. Estimates of resources in the North Western section, down to the –80m level (compared to sea level), were completed in 2004 and those for the South Eastern section, down to the –500 level, and the deeper levels of the North Western section were completed in 2005. Cutoff grades used were 3% Zn eq for Balance Reserves and 1.4% Zn eq for Off Balance Reserves.

Details of the 1995 and 2006 Kazakh ore reserve estimates are described in Annexure D and the results are summarised in Table 3.2.

ShalkiyaZinc has retained AMC to prepare a statement of Shalkiya’s resources and reserves that is compliant with JORC guidelines. This work is progressing but because of the large amounts of data involved it has not been completed at this time. However, the work that has been completed demonstrates comparability between the Kazakh Balance Reserve and a JORC Resource estimate at 3% Zn eq. These results are presented in more detail in Section 4.4.2.

Table 3.2: Shalkiya 1995 and 2006 Reserves Using Kazakh Classification System

Kazakh Classification Category	Approved Reserve at 1.4% Zn eq Cut Off ^{Note 1}						Approved Reserve at 3% Zn eq Cut Off ^{Note 2}				
	Quantity Mt	Grade (%)		Contained Metal (000 t)		Quantity Mt	Grade (%)		Contained Metal (000 t)		
		Pb	Zn	Pb	Zn		Pb	Zn	Pb	Zn	
SHALKIYA	Total	249	1.0	3.5	2,392	8,787	129	1.3	4.3	1,657	5,528
in categories:	B	22	1.3	3.5	284	763	9	1.5	4.3	133	384
	C ₁	200	0.9	3.5	1,851	7,040	106	1.3	4.3	1,371	4,528
	C ₂	27	1.0	3.6	264	999	15	1.1	4.2	154	616
comprising: —											
NORTH-WESTERN SECTION	Total	112	0.8	3.5	924	3,928	59	1.1	4.4	665	2,571
in categories:	B	18	1.3	3.5	225	615	7	1.4	4.3	92	286
	C ₁	82	0.7	3.5	609	2,875	44	1.1	4.4	495	1,944
	C ₂	12	0.8	3.6	97	453	8	1.0	4.2	79	341
SOUTH-EASTERN SECTION	Total	137	1.1	3.6	1,469	4,859	70	1.4	4.2	992	2,957
in categories:	B	4	1.4	3.5	60	148	2	1.7	4.1	41	98
	C ₁	118	1.1	3.5	1,242	4,164	62	1.4	4.2	876	2,584
	C ₂	15	1.1	3.6	167	546	6	1.2	4.3	76	275

Note 1:

Estimated from primary exploration records by Karatau GRE

Approved in December 1995 according to the following criteria

- Sample cut-off grade for resource delineation — 1.4% Zn equivalent, where Zn equivalent equals to Zn+(Pb × 0.45), ignoring contents below 0.46% Zn and 0.30% Pb
- Minimum width of mineralisation — 3m, or the equivalent accumulation where high grade mineralisation is of a narrower width
- Maximum width of barren and below cut-off grade partings — 5m

Mining depletion not taken into account.

Note 2:

Estimated by LLC GeoInCentre from data provided by ShalkiyaZinc

North-Western section reserve was approved in December 2005 and the South-Eastern section reserve in March 2006, according to the following criteria

- Sample cut-off grade for resource delineation — 3% Zn equivalent, where Zn equivalent equals to $Zn+(Pb \times 0.5)$, ignoring contents below 0.46% Zn and 0.30% Pb
- Minimum width of mineralisation — 3m, or the equivalent accumulation where high grade mineralisation is of a narrower width
- Maximum width of barren and below cut-off grade partings — 5m

Mining depletion taken into account

General Notes:

1. Terminology and classification follow the Former Soviet Union classification system of natural resources, which been retained and remains in force in Kazakhstan
2. Reserve is an estimated quantity of in-situ mineralisation satisfying the following criteria:
3. Compiled by Zygmunt Jakubiak on the basis of data provided by LLP ShalkiyaZinc Ltd.

3.1.2 Mining Operations

Development of the mine, following designs developed by the Institute Giprotsvetmet of Moscow in 1982, commenced in 1984. The Project provided for the construction of an underground mine in three stages:

Stage 1: Construction of an initial mine with a design capacity of 1.5 mtpy in the North Western section of the Shalkiya deposit, with mining down to the +40 m horizon.

Stage 2: Increase in the mining capacity to 3 mtpy in the North Western section, with mining from deeper levels.

Stage 3: Construction of a new mine with a design capacity of 3 mtpy for deep mining in the South Eastern section of the Shalkiya deposit.

From the start all infrastructure was installed to service the 3mtpy production rate, including the sinking of two shafts to a depth of 580 m to service the South Eastern section of the mine.

The operator, Achpolymetall, continued operations until 1994 and produced a total of 1.8 million tonnes of ore grading 1.13% Pb and 3.02% Zn before closing the operation and abandoning the mine due to a lack of financing. By this time approximately \$250 million dollars had been invested in the mine's development and infrastructure.

ShalkiyaZinc successfully tendered \$1.4m to purchase the operator's Shalkiya assets in 2001 and purchased the Kentau concentrator site for \$6.0m in 2003. During the period 2002 to 2004 the Company invested an additional \$10m on a program of rehabilitating the mine and the Kentau concentrator. Mine production recommenced in February 2004 and by June 2006 755,213 tonnes of ore grading 3.7%Zn and 1.6%Pb had been brought to the surface.

In early 2005 Shalkiya commissioned Independent Engineers (Australia) Pty Ltd to complete a Scoping Study to determine a strategy for further developing the mining complex. The study examined three scenarios for the operation at production levels of 1.0, 1.5 and 3.0 mtpy.

The study concluded that the 3.0 mtpy option was the most financially attractive due to lower operating costs from economies of scale and a lower cut off grade maximising the extraction of the mining reserve. Recommendations were made for additional work to be undertaken to improve the accuracy of the economic modelling and to better define the project.

ShalkiyaZinc has accepted that 3 mtpy is the most appropriate production rate for the future of the mine and has commissioned Outokumpu Technology Minerals Oy to design a 3mtpy concentrator for installation at the Shalkiya minesite. Metallurgical testwork and preliminary major equipment specification has now been completed.

The majority of the mine infrastructure and orebody development necessary to allow this production rate to be commenced has already been installed by the previous operator of the mine. ShalkiyaZinc staff have completed further extensive mine design work and have identified mine infrastructure work that remains to be completed to allow the increased production rate to be achieved.

ShalkiyaZinc has prepared a Business Plan that includes a staged increase in mining and processing to 3mtpy in the year 2010.

3.2 Talap Deposit

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

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

1986 to 1991: Preliminary exploration, including 180 drillholes, 70 composite samples, 50 small and 9 laboratory scale metallurgical samples from 46 to 327kg 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. Details of these estimations are presented in Annexure C.

Process testwork has been conducted on five laboratory scale samples by CNIGRI at Tula and on four samples by Achpolymetall. The work returned positive results which indicate that the optimal process route will most likely involve grinding to 95 to 98% passing 0.08mm and selective flotation, with subsequent grinding to 93 to 98% passing 0.044mm of rough zinc concentrate and of lead concentrate after the first cleaning. Recoveries for this process were reported as follows:

- Recovery into Pb concentrate 81.7% Pb, 32.8% Ag, up to 50 g/t Au
- Recovery into Zn concentrate 81.2% Zn, 82.5% Cd, 4-30 g/t Au
- Grades of Pb and Zn concentrates were 45% Pb and 50% Zn respectively.

3.3 Ogizmuiz Construction Materials Deposit

The Ogizmuiz project commenced in 2004 when the subsurface use contract was issued. Initial efforts were focussed on defining the resource and determining its suitability for providing construction materials of acceptable quality.

Establishment of the dolomite quarry commenced in March 2006. By mid 2006 the crushing and screening complex had been commissioned and limited production and sales of product had commenced.

3.4 Comments and Conclusions

As a result of AMC's review of the Shalkiya mine the following comments are made.

- ShalkiyaZinc can benefit from the fact the Shalkiya mine has been designed for a 3mtpy production rate. A significant portion of the infrastructure required to achieve that production rate has already been installed by the mine's previous owners and some 14m tonnes of ore has already been accessed by underground development. An amount of \$250m was spent on this work.
- The large amount of work that has been done to delineate the Shalkiya orebody gives confidence that the orebody is well known and well understood.

4 SHALKIYA GEOLOGY AND RESERVES

4.1 Geological Characteristics

4.1.1 Regional Geology

The Shalkiya deposit is situated in the late Palaeozoic Akuyuk-Maydantal geological region, which forms part of the thrust belt at the south western foothills of the Karatau Ridge (see Plate 4).

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

The deposit has been folded due to a North East compressional event which, together with extensive reverse faulting and thrusting, has created what is now a relatively complex structural environment.

Superficial overburden cover is limited to a thin veneer of predominantly Mesozoic unconsolidated sediments.

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

4.1.2 Local Geology

Apart from two small gossan showings as shown in Plate 2, Shalkiya is a blind deposit. It extends from a depth of about 20m in the north-west down to a depth of 800m in the south-east. In plan view, the deposit covers an area of almost 6km in length and up to 1.2 km in width (Plate 5).

The host structure is the Baktysay syncline, an isoclinal recumbent fold with the hinge zone running along the south-western edge of the mine area and limbs dipping gently North East to East North East but with quite frequent dip reversals (Plate 6). The overturned limb has been partly obliterated as a result of overthrusting. The deposit is cut by a series of steep faults, both normal and reverse, trending North East and West North West.

The Pb-Zn mineralisation is stratiform and confined to the Upper Fammenian unit, called the “ore-bearing member”, which is sandwiched between two massive dolomite and limestone units. The stratigraphy of that unit is shown in Table 4.1.

The ore-bearing member is divided into six sub-members, three of which (1st, 3rd and 5th) are predominantly dark-grey to black fine-grained rhythmically banded carbonaceous-pelitic-siliceous-carbonate rocks called rhythmites and the other three (2nd, 4th and 6th) are predominantly massive carbonate rocks. Sphalerite and galena are disseminated throughout the whole unit but commercially significant quantities of these minerals, mainly in the form of dense fine concordant laminations, occur predominantly in two rhythmite horizons in the 3rd and 5th submembers. These horizons are the Lower Orebody and Upper Orebody respectively. Relatively small and inconsistent lenses of possibly commercial mineralisation also occur in rhythmites of the 1st sub-member and also, but only in the South Eastern section, in rhythmites of the 6th submember.

The highest sulphide concentrations are associated with very finely banded rhythmites which contain significant amounts of carbonaceous matter (Plate 8).

Table 4.1: Stratigraphy of the Upper Fammenian Ore Bearing Unit

Stratigraphic Name	Average Thickness (m)	Lithology	Significant Mineralisation	Proportion of Mineralisation Within Submember %	
				North Western Section	South Eastern Section
6th submember D ₃ fm ₃ b ₆	48	Upper dark grey and black dolomites. Black-dark grey dolomites alternating with rhythmites	Pb-Zn mineralisation in rhythmites in the South-Eastern section		27
5th submember D ₃ fm ₃ b ₅	32	Upper productive rhythmites. Thinly banded rhythmites passing upwards into thick banded and more massive rhythmites, thinly banded rhythmites on top	UPPER OREBODY (hosted in thinly bedded rhythmites)	41	69
4th submember D ₃ fm ₃ b ₄	19	Rhythmite-dolomite spotted breccias and dolomites. Light spotted dolomite and siliceous breccias, intercalations of rhythmite or mixed breccias, rare black dolomites and thickly bedded rhythmites			
3rd submember D ₃ fm ₃ b ₃	15	Middle productive rhythmites. Thin banded and micro-banded rhythmites, locally laterally passing into thickly bedded rhythmites, a 0.3-1.5m marker horizon of massive carbonate in the centre of the submember	LOWER OREBODY And Lenses of Pb-Zn mineralisation in the footwall of the Lower Orebody	84	68
2nd submember D ₃ fm ₃ b ₂	21	Lower grey dolomites and limestones. Massive carbonate rocks changing from light-grey dolomites in the north-west to grey thick bedded limestones in the south-east		4	
1st submember D ₃ fm ₃ b ₁	21	Lower pyritic-siliceous rhythmites. Siliceous dolomite rhythmites with alternating medium and thick banded varieties, 2-3m horizon of thinly and micro-banded rhythmite in the centre, characteristic thin pyrite enriched intercalations, limestones along the NE periphery of the deposit.	Disseminated and occasionally banded Pb-Zn mineralisation in the central part of the submember		18

The Lower Orebody is the more important of the two. The host submember has sharp contact with the underlying dolomites and limestones but the upper contact with breccias is generally irregular and the breccias themselves contain patchy sulphide accumulations which in some instances may contain mineable grades.

The Upper Orebody is erratic in grade distribution and laterally inconsistent, probably due to variations in composition and texture of the host rhythmites. The highest sulphide concentrations are again found in very finely laminated carbonaceous varieties of rhythmites.

Although the overall folded structure is relatively straightforward and characterised by good lateral continuity, small scale structural variations are very significant. They are due to the frequent presence of parasitic folds with amplitudes up to a few metres and minor faults with slips of similar magnitude (Plates 9 and 10).

4.2 Mineralogical Characteristics

The main metalliferous minerals, in order of abundance, are sphalerite, pyrite and galena. Minor metalliferous minerals are arsenopyrite and grey ore (tetrahedrite). The main gangue minerals are dolomite, quartz, sericite and conspicuous carbonaceous matter described as a mixture of antracsolite and polyantracsolite. Supergene minerals are found along faults and major fractures on the currently operating mine levels. The minerals found at Shalkiya are listed in Table 4.2.

Sphalerite forms fine bands composed of tightly packed grains and uniform disseminations throughout the productive rhythmite horizons. Its average content in rhythmites is about 6% by volume, but in extreme cases can reach 20%. The prevailing grain size is 0.005 to 0.05mm. Sphalerite is closely associated with dolomite and quartz, forming intergrowths and rims around these minerals. Less frequent associations include aggregates with galena and pyrite and very fine sphalerite-carbonaceous matter intergrowths.

In crosscutting sulphide-quartz-carbonate veinlets, sphalerite forms aggregates from 0.01mm to 2 to 3 mm in size and occasionally to 1cm. This variety of sphalerite is yellow-grey-orange-red and contains Mn, Cd, Ge and Ag. Similar varieties are occasionally found as coarse crystals lining open joints.

Galena forms laminations and less abundant disseminations. Grain size varies from 0.001mm to 0.5mm, with 0.005 to 0.05mm being the most common range. It is sometimes intergrown with sphalerite and occasionally rimmed by quartz, and often occurs in round organic remains as 0.003 to 0.015mm cores surrounded by pyrite films of around 0.001mm in size.

With grains up to 2cm across, galena can be conspicuous in sulphide-quartz-carbonate veinlets, but is less abundant than sphalerite. Coarse varieties contain Ag, Cu, Sb, Bi, Mo and Ta.

Pyrite forms pervasive disseminations and bands and tends to be closely associated with sphalerite. The predominant grain size range is 0.005 to 0.2mm.

Predominant forms of mineralisation, in order of abundance, are:

- Finely banded sphalerite-pyrite, galena-sphalerite-pyrite, sphalerite-galena and galena-pyrite assemblages in rhythmites and the same minerals disseminated throughout the productive rhythmite horizons;
- Coarser aggregates in quartz-carbonate veinlets;
- In sedimentary breccias formed from rhythmites.

Table 4.2: Shalkiya Deposit Mineralogy

	<u>Major Minerals</u>	<u>Minor Minerals</u>	<u>Accessory Minerals</u>
Primary			
Metallic	Sphalerite Galena Pyrite	Arsenopyrite Grey ore	Chalcopyrite Bournonite Jordanite Marcasite Magnetite Hematite — Martite
Nonmetallic	Dolomite	Calcite	Witherite
Gangue	Quartz Sericite Carbonaceous matter	Fluorite Chlorite	Muscovite Epidote Apatite K Feldspar
Supergene		Anglesite Cerussite Plumbojarosite Smithsonite Goethite Hydrogoethite	Bornite Chalcocite Covellite

As reported by Kazmehanobr, Pb and Zn are distributed fairly evenly in various comminution size classes, with the range from 1.6mm to 1mm being the most common. It should be noted that the <0.044mm range contains more than 19% of the Pb and more than 10% of the Zn. This has important implications for mineral processing and recoveries as described Section 6 of this CPR.

4.3 Geotechnical and Hydrology

Testing of samples from various areas of the deposit and experience in working the orebody indicates that geotechnical conditions are favourable for underground mining. The carbonate host rocks are generally characterised by high compressive and tensile strengths such that the horizontal mine workings do not require significant general support, except in areas where small unstable zones are associated with faults. Based on the Beniaowski's rock mass rating, about 40% of the deposit is rated as "very good rock" (rating >90 and uniaxial compressive strength >1600 kg/cm²) and 50% as "good rock" (rating 60-90 and uniaxial compressive strength 1300-1600 kg/cm²).

The main source of groundwater inflow is the fracture-karst aquifer in the Akuyuk syncline to the south-east of the deposit and carbonate formations are the only water bearing rocks in the mine area. The average water inflow into the mine at present is 260 m³/hour. Total dissolved solids are less than 2.5 g/litre and the pH is neutral.

4.4 Reserves and Resources

4.4.1 Resource Delineation Database

North Western Section

This part of the deposit has been delineated by surface core drilling on a rectangular grid comprising profiles on a N35°E bearing, more or less perpendicular to the overall plunge of the mineralisation, and on lines parallel to the plunge. The drilling grid was 80 × 40m in profiles 21 to 13 and 100 × 80 to 100m in profiles 13 to 1. Deeper parts of the deposit and outlying areas have been drilled to 100 × 80 to 100m and wider spacing.

Underground exploration has been undertaken on the 165m level and several sublevels in order to verify drilling results.

South Eastern Section

As in the North Western section, drilling profiles were laid out on a bearing of N35°E. Initial drilling on a grid of 200 × 400m was later infilled to 100 × 200m and 80 × 100m. A small area between profiles 15 and 17 has been drilled on 50m centres for comparative purposes.

Quality of Drilling Results

Core drilling from the surface has been the main method of exploration and delineation. Drilling techniques have varied considerably, evolving from primitive shot-core drilling through hydro-percussion core drilling to modern wireline drilling, which was introduced in 1986. Hole diameters have ranged from 110mm to 59mm.

Core recoveries have depended on the drilling technique and the equipment used, and were often low by industry standards prior to the introduction of wireline drilling. Within mineralised intercepts, core recoveries have been recorded both in terms of weight of core and as the length of core retrieved.

Poor core recoveries have been recorded at all stages of exploration of the North Western section, where approximately 67% of mineralised intercepts had recoveries below 70%, with half of these not achieving 60%.

In addition to poor core recovery there is an issue of differential loss of sulphide material from mineralised intercepts. A programme involving diamond drilling, underground channel and bulk sampling and drilling under controlled conditions was carried out between 1983 and 1992 and it confirmed that differential loss had occurred in all types of drilling with the exception of wireline drilling. However, the results failed to establish any firm criteria that could be used to quantify the losses of sulphides and the resulting underestimation of lead and zinc grades.

Better core recoveries were recorded at the South Eastern section, where 65% of all drilling was done by wireline drills. The average recovery from mineralised intervals was 86% with a range from 72% to 90%.

Locations of drill hole collars have been determined by survey with horizontal and vertical accuracies in the range of 0.1 to 0.3m. Inclination surveys were carried out at 20m intervals on all holes during drilling and repeated for control purposes on completion of each hole. Significant deviations have been recorded in most wireline holes, particularly in those that passed through the overthrust Tiulkybash formation between the Central and Eastern Thrusts.

Drill Hole Geophysical Logging

Drill hole geophysical logging has been a component of work programs since 1971. Gamma-ray, resistivity, IP and calliper methods have all been used at times in most holes. Roentgen-radiometric logging was introduced during exploration of the South-Eastern section.

The scope of geophysical work was significantly expanded during exploration of the South-Eastern section during in 1983 to 1994. Some unique methods, using electric correlation, radio wave transmission and three-electrode electric profiling between pairs of drill holes, have been used to verify continuity of mineralisation between drill holes and at the same time to establish physical and mechanical properties of rocks and to detect structural discontinuities.

Geophysical work has been very thorough and of high quality and has proved to be successful in confirming lateral continuity between drillhole intercepts.

Core Logging and Sampling

Core logging consists of three stages:

- Description of the whole core by a geological technician showing run intervals, core recovery, state of core and other parameters
- Logging of mineralised intercepts, marking of sample intervals and describing mineralisation within each interval, diagnostic etch testing and, at the stage of detailed exploration, diagnostic quantitative roentgen-radiometric sampling
- Logging of all lithological units by an experienced geologist, with special emphasis on marker horizons and their correlation with downhole geophysical logging data.

Logging data is plotted on logs at a 1:500 scale, showing lithological units, morphological types of mineralisation and roentgen-radiometric results. The logs are updated on receipt of analytical results and geophysical logs. The

final stage involves correlation of lithological contacts and mineralised intervals based on geological and geophysical data by a senior geologist. While logging is being completed geophysicists prepare sections based on results of downhole geophysical logging and inter-hole correlation.

Core samples have been taken from all mineralised horizons and from wall rocks over lengths exceeding 5m. All 35mm core is split by hand whilst larger diameter core is generally split with mechanical splitters. Sawing is not considered to be practical due to the high hardness and abrasiveness of the mineralised horizons. Duplicate samples have been used for control analyses and other purposes such as the making of composite samples for metallurgical testwork, collection of specimens for mineralogical and petrological studies, density measurements and strength tests. Except for reference specimens of various lithological units, no duplicate core has been retained.

Statistics of analytical results on two halves of core have not revealed any bias in sampling.

Sample Preparation

The sample preparation scheme has been designed on the basis of the Czeczott formula $Q=kd^2$ where k was experimentally defined as 0.2. Quality is controlled by inserting re-labelled duplicate samples obtained after the first volume reduction of the initial sample into the system. About 4% of the samples have been duplicated in this way and analytical results have not revealed any major discrepancies.

Analytical Quality

Routine chemical analyses for Pb and Zn have been carried out at the Karatau GRE assay laboratory, using the polarographic method with 0.03% precision for both elements. Analyses for other elements and external control analyses have been done using either polarographic or AA methods with 0.01% precision at the Central Chemical Laboratory PGO “Yuzhkazgeologia”.

Internal and external control analyses have not produced significant errors, except for a systematic understating of Pb and Zn values during the years 1985 and 1986 when poor quality of standards were discovered. All affected samples have been re-analysed at the Central Chemical Laboratory PGO “Yuzhkazgeologia”.

Bulk Density and Moisture Content

Density has been determined by the waxed drill core water displacement method using underground rock samples. Results have been checked using two underground bulk samples, each of more than 2 tonnes in weight. Density variations were insignificant and the average for material grading 1.1% Pb and 3.5% Zn has been conservatively estimated to be 2.8 g/cm³.

Moisture content is insignificant and varies from 0.01% to 0.06%.

4.4.2 Mineral Resource Inventory

Balance Reserves Using Kazakh System

In the Kazakh mining regulatory system the mine operator is contracted to extract an approved Balance Reserve after an extensive, lengthy and thorough exploration program. The Kazakh term Balance Reserve signifies an in-situ quantity of mineralisation that satisfies a set of criteria such as cut-off grades, minimum width and the upper limit dimensions of internal waste occurrences. These criteria are determined by a conceptual feasibility study conducted by the mine operator and approved by the regulatory authorities.

The Balance Reserve estimates produced by the mine operator based on these criteria is thoroughly reviewed and audited by a group of experts appointed by the State Committee of Reserves and, when approved, is placed on the state reserve balance inventory. Its extraction is then monitored annually with regard to depletion due to mining and expansion resulting from successful exploration.

The contract terms are defined in such a way as to maximise extraction of the approved Balance Reserve, as adjusted to allow for the specified dilution and losses of ore during the mining process. The application of the reserve dilution and mining losses converts the Balance Reserve into a Mining Reserve. Only Balance Reserves of Category C₁ or higher and converted to Mining Reserves.

The mine operator is required to maximise extraction of the Balance Reserve and therefore has a limited scope for implementation of variable cut off policies and selective mining of higher grade ores during the mining process.

ShalkiyaZinc has had two sets of Reserve estimates approved, based on 1.4% Zn equivalent and 3% Zn equivalent cut-off grades. Zn equivalent is calculated from the formula $Zn+(Pb \times 0.45)$, ignoring contents below 0.46% Zn and 0.30% Pb. The Kazakh Reserves at cut-off grade of 1.4% Zn equivalent were approved by the Kazakhstan regulatory authorities in 1995 while the 3% cut-off Reserves were approved in 2004 for the North Western section of the mine and in 2006 for the South Eastern section and the deeper levels of the North Western section.

The Reserves are classified into B, C₁ and C₂ Categories. Reserves based on a drilling grid spacing of 40m × 80m or less are classified in the B Category, provided that the average core recovery exceeded 70% and continuity was proved by direct observations or by geological and geophysical interpretations of closely spaced observations. The B Category Reserve in the North Western section is confined to developed mine areas, whilst in the South Eastern section it covers the area that has been drilled on a 50m centre grid that has also been extensively investigated by geophysical methods.

The Reserve classified in the C₁ category is interpolated from drilling intercepts on 80m × 80m to 80 × 100m grids in the North Western section and on a 100m × 200m grid in the South Eastern section of the orebody. Continuity is well supported by geophysical evidence and geological interpolations that link the key stratigraphic and structural features. The C₂ category Reserve is situated mostly on the flanks of the deposit.

All Reserve estimates were made using conventional estimation methods which, despite the now widespread use of computerised methods, remain acceptable in the mining industry. For an orebody of Shalkiya's complexity, conventional methods enable geologists and mining engineers to more precisely define the Mining Reserve based on the mining method that is used.

Verification Using JORC Principals

At ShalkiyaZinc's request, AMC is modelling the Shalkiya mineralisation and estimating resources using Datamine computer software and JORC principles in order to verify Shalkiya's Balance Reserve. Information provided by the Company, contained in databases, spreadsheets, Mapinfo files and scanned images has been used in the modelling work completed to October 2006, but significant quantities of detailed underground sampling information remain to be entered into the model. Consequently, results of this work are based on surface drill hole data that has been checked for reasonableness and internal consistency but not against original data.

AMC has modelled the two main stratigraphic ore bearing horizons, the 3rd submember D₃fm₃b₃ and 5th submember D₃fm₃b₅, of the Upper Fammenian ore-bearing unit, and separately within them the two main orebodies, the Lower Orebody and Upper Orebody, as defined by the plus 3% Zn equivalent contour on orebody cross sections. The resulting strings have been connected between the sections to make solid wireframe bounded volumes.

Drillhole sample data located within each of the four wireframes has been extracted and composited to 1m intervals. Blocks of 80m(N) by 40m (E) and 4m (RL) size, sub-blocked to to 5m × 5m × 1m where necessary, have been defined within each wireframe and block grades have been estimated using the Inverse Distance Squared (ID2) method. Resource tonnages have been estimated using a bulk density of 2.8 t/m³.

The measured and indicated resource areas have been defined based on the drillhole spacing and continuity of the resource model. Mineral resources classified as Measured lie within an area drilled generally on a 80m by 40m grid spacing, while mineral resources classified as Indicated lie within areas drilled generally on a 100m by 80m or closer spacing.

This verification work is still in progress but comparability between the Balance Reserve and the JORC Resource estimate at 3% Zn eq can be demonstrated. The two estimates are compared in Table 4.3.

The differences between the overall Balance Resource and the JORC based Mineral Resource are within acceptable margins of error. The total tonnage estimated by AMC is about 5% higher than the Balance Reserve and the contained zinc metal is almost identical. Contained lead metal is about 10% lower than for the Balance Reserve. AMC believes that the lower result could be due to the presence of rich pockets of lead mineralisation that have been averaged out during Datamine modelling process. The discrepancy will be addressed by AMC during continuing verification work.

The manually based Kazakh reserve estimation process is more selective in excluding non minable ore occurrences than is the computerised JORC process, where the estimate is based on summing individual ore blocks above the cut off grade, without regard to their mineability. Consequently, the JORC Resource results in a greater quantity of ore but at a lower grade.

Table 4.3 demonstrates that there is no simple correlation between the Kazakh classification into categories B, C₁ and C₂ and the JORC classification into Measured, Indicated and Inferred categories. The Kazakh classification depends predominantly on drillhole grid spacing whilst the JORC system places more emphasis on structural and grade continuity.

Table 4.3: Comparison between Kazakh Balance Reserves and Preliminary JORC Mineral Resources at 3% Zn eq Cut Off Grade

Asset	Kazakh Classification Category	Kazakh Balance Reserve at 3% Zn eq cut-off ^{Note 1}					JORC Resource Category	Preliminary JORC Mineral Resource at 3% Zn eq cut-off ^{Note 2}						
		Quantity	Grade (%)			Contained Metal (000 t)		Quantity	Grade (%)			Contained Metal (000 t)		
			Mt	Pb	Zn	Pb			Zn	Mt	Pb	Zn	Pb	Zn
SHALKIYA	Total	129.3	1.3	4.3	1,657.4	5,527.6	Total	136.1	1.1	4.0	1,494.4	5,504.0		
in categories:.....	B	8.9	1.5	4.3	132.5	383.9	Measured	33.5	1.3	4.1	450.8	1,356.6		
	C ₁	105.8	1.3	4.3	1,370.5	4,528.1	Indicated	101.2	1.0	4.0	1,033.5	4,091.0		
	C ₂	14.6	1.1	4.2	154.4	615.6	Inferred	1.4	0.7	4.0	10.2	56.5		
comprising: —														
NORTH-WESTERN SECTION	Total	59.0	1.1	4.4	665.0	2,570.5	Total	62.8	1.0	4.1	612.6	2,570.2		
in categories:.....	B	6.6	1.4	4.3	91.6	286.1	Measured	26.9	1.3	4.1	347.1	1,089.4		
	C ₁	44.3	1.1	4.4	494.9	1,943.7	Indicated	35.7	0.7	4.1	263.8	1,470.6		
	C ₂	8.1	1.0	4.2	78.5	340.7	Inferred	0.3	0.6	3.6	1.7	10.1		
SOUTH-EASTERN SECTION	Total	70.4	1.4	4.2	992.4	2,957.1	Total	73.3	1.2	4.0	881.9	2,933.9		
in categories:.....	B	2.4	1.7	4.1	40.9	97.8	Measured	6.6	1.6	4.0	103.7	267.2		
	C ₁	61.6	1.4	4.2	875.6	2,584.4	Indicated	65.5	1.2	4.0	769.7	2,620.4		
	C ₂	6.5	1.2	4.3	75.9	274.9	Inferred	1.1	0.8	4.1	8.5	46.3		

Notes:

(1) As at 1st January 2006

(2) Estimated by AMC from surface drilling database, mining depletion not taken into account

4.4.3 Mining Reserves

ShalkiyaZinc has estimated Mining Reserves for the North Western and South Eastern sections of the deposit. A major part of the former section is developed down to the +40m level and shafts have been sunk down to deeper levels. Current production is from the +163m and +100m levels where mining areas have been accessed and developed. Mining methods, which were originally proposed by Giprotsvetmet Institute of Moscow, have been well tested and modified to suit local conditions. Key parameters such as mining losses and dilution can therefore be forecast with sufficient accuracy to estimate recoverable tonnages of the in-situ resource and expected diluted grades.

A summary of the Shalkiya Kazakh Reserves and Kazakh Mining Reserves is shown in Table 4.4. AMC is confident that the estimations shown are representative and unbiased.

4.5 Comments and Conclusions

As a result of AMC's review of the Shalkiya mining operations the following comments are made

- The Shalkiya deposit is complex but due to the large amount of exploration and reserve delineation work that has been carried out, it is well understood.
- Records show that prior to 1986 drill core recovery in mineralised zones was poor and that sulphide minerals were probably lost from the core to some extent. If this is true it is possible that production ore grades at Shalkiya will be higher than historic production grades and estimated mining reserve grades.
- AMC has examined both sets of the Kazakh Reserve estimates and has not found any fatal flaws in the database or the estimation methods. The documented core recovery problems and differential loss of sulphides from drill core, both of which occurred during exploration of the North-Western section, may have resulted in some unquantifiable underestimation of grades.
- Current mining methods will continue to be used. Consequently, key parameters such as mining losses and dilution can be forecast with sufficient accuracy to estimate recoverable tonnages from Balance Reserves and expected diluted grades.
- Because of these factors AMC is confident that the Kazakh Mining Reserve as estimated by ShalkiyaZinc is reasonable and agrees that future production grades will be at least similar to those in the past.

Furthermore, mining from stopes in the Lower Orebody, which is of higher grade and is more consistent than the Upper Orebody, should produce grades higher than historical grades as a large proportion of ore so far mined has been from the Upper Orebody.

- AMC is also confident that the estimates of JORC Mineral Resources and Ore Reserves, when they are completed, will be comparable with Shalkiya's Balance and Mining Reserve estimates based on Kazakh methodology and classification when the same cut-off grades are used. ShalkiyaZinc's use of those reserves as a basis for the production schedule used in the Company's Business Plan is therefore judged to be fair and reasonable.
- The stratigraphic horizons containing reserves are open to the south east and this offers the opportunity of discovering additional mining reserves. The depth of the horizons below surface and distance from the installed haulage shafts increases in the south easterly direction.

Table 4.4: Shalkiya Balance Reserve and Mining Reserve Summary

Asset	Kazakh Classification Category	Balance Reserve					Reserve to Mining Reserve conversion		Mining Reserve, excluding mine pillars (mineable subset of Reserve less Losses plus Dilution)				
		Quantity Mt	Grade (%)		Contained Metal (000 t)		Losses %	Dilution %	Quantity Mt	Grade (%)		Contained Metal (000 t)	
			Pb	Zn	Pb	Zn				Pb	Zn	Pb	Zn
SHALKIYA	Total	129.346	1.3	4.3	1,657.4	5,527.6	⇒	100.853	1.2	4.0	1,258.1	4,070.7	
in categories:	B	8.942	1.5	4.3	132.5	383.9							
	C ₁	105.824	1.3	4.3	1,370.5	4,528.1	12 – 30	8 – 12	100.853	1.2	4.0	1,258.1	4,070.7
	C ₂	14.581	1.1	4.2	154.4	615.6							
comprising: —													
NORTH-WESTERN SECTION													
Levels +185m to –80m ..	Total	46.815	1.2	4.3	567.1	2,027.3	⇒	33.016	1.2	4.0	397.0	1,331.2	
in categories:	B	6.582	1.4	4.3	91.6	286.1							
	C ₁	32.664	1.2	4.4	399.4	1,424.7	12 – 30%	8 – 12%	33.016	1.2	4.0	397.0	1,331.2
	C ₂	7.570	1.0	4.2	76.1	316.5							
Below –80m Level	Total	12.144	0.8	4.5	97.9	543.2	⇒	11.578	0.8	4.5	94.9	518.3	
in categories:	B												
	C ₁	11.590	0.8	4.5	95.5	519.0	20%	10%	11.578	0.8	4.5	94.9	518.3
	C ₂	0.554	0.4	4.4	2.4	24.2							
SOUTH-EASTERN SECTION													
in categories:	Total	70.387	1.4	4.2	992.4	2,957.1	⇒	56.259	1.4	3.9	766.1	2,221.2	
	B	2.360	1.7	4.1	40.9	97.8							
	C ₁	61.571	1.4	4.2	875.6	2,584.4	20%	10%	56.259	1.4	3.9	766.1	2,221.2
	C ₂	6.457	1.2	4.3	75.9	274.9							

Source: Compiled by LLP ShalkiyaZinc Ltd. , with figures for the mining reserve below the –80m level in the North Western section corrected by AMC

Notes:

- (1) Terminology and classification follow the ex-Soviet Union classification system of natural resources, which been retained and remains in force in Kazakhstan
- (2) Reserve is an estimated quantity of in-situ mineralisation satisfying the following criteria (approved by Kazakhstan regulatory authorities on 21 October 2005):
 - Sample cut-off grade for resource delineation — 3% Zn equivalent, where Zn equivalent equals to Zn+(Pb x 0.5), ignoring contents below 0.46% Zn and 0.30% Pb
 - Minimum width of mineralisation — 3m, or minimum accumulation of 3m% for high grade mineralisation in narrow zones, where m% is the width in m multiplied by the grade in %
 - Maximum width of barren and below cut-off grade partings — 5m
- (3) Mining Reserve is part of the Reserve scheduled for extraction; it includes both developed and undeveloped reserves. Estimates of tonnages and grades include allowances for expected mining losses and mining dilution with barren and sub-cut off grade mineralised material
- (4) All Reserve and Mining Reserve figures given in the table above are 100% attributable to LLP ShalkiyaZinc Ltd.

5 SHALKIYA MINING

5.1 Production History

The construction of the Shalkiya underground mine was designed by Giprotsvetmet Institute (Russia), who developed a project titled “Construction of the underground mine at the Shalkiya deposit to produce 3 mtpy” in 1982.

Commencing at that time, the mine has been constructed in accordance with the project specifications. The general layout of the installed infrastructure at the Shalkiya mine is shown in Plate 12.

Mining commenced at Shalkiya in 1984 and between then and closure in 1994 it is reported that 1.76 Mt of ore was mined from the North East area of the mine at grades of 1.13% Pb and 3.02% Zn.

ShalkiyaZinc recommenced mine production in early 2004. Production results since that time are shown in Table 5.1.

Table 5.1: Shalkiya Recent Production History

<u>Period</u>	<u>Ore Mined</u>	<u>Ore Processed</u>		<u>Processed Ore Grade</u>	
	tonnes	tonnes	tonnes per month	%Zn	%Pb
March to December 2004	232,163	210,000	21,000	3.3	1.0
January to December 2005	360,246	359,000	29,920	3.6	1.6
January to June 2006	162,800	189,000	31,500	3.5	1.6

The Kentau monthly processing rate has increased steadily since operations recommenced in March 2004, by 42% in 2005 and an additional 5% in the first half of 2006. Although ore grades have been reasonably constant during the last year they are expected to increase as higher grade ore blocks are accessed in the future. Mine production has been constrained by the Kentau concentrator capacity, with ore being stockpiled underground and hoisted as needed.

5.2 Current Operations

The Shalkiya orebody is generally flat lying but does have some steep sections. A variety of mining methods are therefore used, depending on the dip of the orebody. Broken ore is loaded from the stopes using trackless equipment and tipped into orepasses that deliver it to the +100 main haulage level. Scrapers are used at the base of the orepasses to load the ore into trains that haul it to the production Shaft for hoisting to the surface.

The mine operates for 340 days per year with two shifts of eleven hours each per day underground and two eight hour shifts per day on the surface. Personnel rotate between day and night shift. There are 411 persons employed at the mine.

Currently Shalkiya produces 0.5 mtpy (50k tpm, 750 tonnes per shift) from two working areas in operation at any one time, with a key equipment fleet of two single boom mobile (jumbo) drills, two loaders and two trucks.

Ore fragmentation is good and no oversize problems interfere with work cycles.

5.2.1 Mining Methods

Because the orebody at Shalkiya is stratiform and is situated in the nose of a fold structure that has been tipped onto its side, as shown in Plate 7, ore has to be mined from flat lying and steeply dipping orebodies. Separate mining methods have been developed by VNIItsvetmet Institute of Moscow (“VNIItsvetmet”) for these mining conditions

- **Room and Pillar mining method**

For orebody dips from flat to 12° and thickness to 10 metres. Pillars 5 × 5 m area size are formed with 5 m wide rooms being extracted between them. Theoretical minimum ore loss in pillars is 25%. This method is fully mechanised and highly productive with 8 to 10 mining faces being blasted daily.

- **Room and Pillar mining method with panel extraction**

For ore bodies with dips from 12° to 30° and thickness of 6 to 15 metres. Makes use of sublevels developed along strike for access. This is an adaptation of room and pillar mining for more steeply dipping sections of the orebody.

- **Slot Raise Open Stopping mining method**

For ore bodies with dips greater than 30° and thickness to 20 metres. Stopes of 20m width are mined with a 5m wide pillar being left between them. Theoretical minimum ore loss in pillars is 20%. This method is currently less mechanised and therefore less productive.

Currently around 70% of ore is mined by the room and pillar method and 30% by the open stopping method. At this time, because of the large quantity of available reserves, there are no plans to recover any pillars to reduce mining ore losses.

These mining methods are illustrated in Plate 11 and key technical and economic parameters, as developed by VNIItsvetmet, are described in Table 5.2.

Although ground conditions are good, rockbolting with 1.8 m long grouted steel bars in stoping areas is routinely carried out as a safety measure. Underground development is rockbolted and otherwise supported as required.

VNIItsvetmet prepares an annual technical report for the mine which reviews the effectiveness of current mining methods and proposes changes to introduce additional efficiencies. Current improvements being investigated by VNIItsvetmet include

- increasing the room widths in room and pillar stoping areas from five metres to eight metres. This has the potential to reduce ore loss using this mining method from 25% to 15%
- increasing the mechanisation of the Slot Raise Open Stopping method with a view to increasing its productivity and making the method safer for its operators.

Table 5.2: Shalkiya Mining Methods Parameters

Parameter	Units	Mining Method		
		Room and Pillar	Open Stopping	Room and Pillar with panel Extraction
Ore density	t/m ³	2.82	2,82	2,82
Rock density	t/m ³	2.7	2,7	2,7
Proportion of ore Mined	%	63	27	3
Ore Losses	%	18 to 23	18 to 23	18 to 23
Dilution	%	5 to 8	9 to 12	9 to 12
Labour Efficiency of a Face Worker	t/shift	70 to 80	50 to 60	60 to 70

Annual and long term mining plans are prepared based on the VNIItsvetmet annual review and recommendations and these form the basis of ShalkiyaZinc's Business Plan.

5.2.2 Mobile Equipment Fleet

Table 5.3 lists mining equipment in operation with the mine producing at the rate of 500,000 tpy.

Table 5.3: Mobile Equipment Currently in Use to Produce 0.5 mtpy

Equipment Item	Number of Items
TORO 301 load-haul-dump machine: 3 m ³ capacity	2
MoAZ-7405 truck: 25 tonne capacity	2
EJS -417 truck	1
SANDVIK Monomatic jumbo drill	2
KAWASAKI load-haul-dump machine	1
LK-1 load-haul-dump machine	1
FADROM GSM-1 fuel and lubricants truck	1
BOART LONGYEAR diamond drill	1
MIRGALIMSAI BSM-1 longhole drilling machine: 15m hole length capacity	4
PNB-3d face charging machine	2

As noted above, each 500,000 tpy production unit only requires a key equipment fleet of two single boom mobile (jumbo) drills, two loaders and two trucks. The remaining equipment is largely for ancillary operations.

The fleet is a mixture of Western and Russian sourced equipment. The mine is well provided with surface and underground workshops and all equipment appeared to be well maintained.

5.2.3 Services and Infrastructure

Ore Haulage

Broken ore in stopes is delivered to ore passes by loader if the tramming distance is less than 300 metres or otherwise by truck. There are five orepasses installed, three of which are currently in use.

The ore passes deliver the ore to the +100m Level where 55 kW scrapers are used to load it into trains hauled by electric locos that transport it to a rotating tippler. From the tippler ore travels down to the Production Shaft loading station from where it is hoisted to the surface and crushed and stockpiled until it is loaded into railway trucks for haulage to the Kentau concentrator. The surface crusher is a single toggle jaw crusher of 275 tph capacity and delivers a –150 mm product size.

Waste from capital development headings reaches the loading station through a separate tippler and pass from the +100 Level.

The ore hoist is a double drum winder with two 3.7 m³ capacity in balance. The current capacity of the shaft is 1mtpy but it is planned to increase that to 1.25mtpy by installing 5 m³ capacity skips.

Electric Power

Electric power consumption at present is 31.5 kWh per tonne of ore mined.

At present the Company obtains electricity from a temporary substation operated by a local supplier with electricity sourced from the regional electricity market. The temporary substation steps the supply voltage down to 35kV and 6kV for reticulation around the mine site through two transformers of 10 kW each.

The power supply at the mine has been upgraded by ShalkiyaZinc by constructing a 220/10/6 kV substation with two transformers of 40 MW each and these facilities are to be commissioned in 2007.

Process Water and Dewatering

Groundwater and used process water gravitates to sumps on the +100m and +40m levels, from where it is pumped a vertical height of 220 metres to the surface and into a storage pond with a design storage capacity of 6 million m³. Around 40% of the water is recycled back into the mine as process water.

Four dewatering pumps are available for use, each with a total capacity of 1,200 m³/hr. A maximum of two pumps are required to be operating at any time.

Ventilation

Currently ventilation air is exhausted up a dedicated ventilation raise. Exhaust fans with a total capacity of 64m³/minute are installed on the surface on top of the raise.

A second ventilation shaft is being commissioned and it is expected that its exhaust fans will be installed by the end of the year. It will add another 30m³/minute to the underground airflow.

5.3 Expansion to 3mtpy

5.3.1 Overview

ShalkiyaZinc proposes a staged increase in mine production and ore processing from the current rate of 0.5mtpy to achieve a production rate of 3.0mtpy in the year 2010.

Ore and orebody characteristics are consistent over the entirety of the orebody and so current mining methods will continue to be used at the higher production rates.

Because of the large size of the resource and its lateral extent it is expected that the planned higher production rates can be achieved by replicating the current mining area in other locations. Infrastructure already in place will be supplemented by a planned mine and infrastructure development program to allow these new mining areas to be established.

5.3.2 Equipment and Capital Works

ShalkiyaZinc has prepared detailed estimates of capital works required to prepare the mine to produce 3mtpy and the time required to install them. These estimates have been checked against others supplied by Outokumpu.

Major capital works to be completed includes

- equipping the already existing Man and Materials and Hoisting Shafts
- installation of an underground crusher and associated orepasses
- extension of the installed Transportation Decline
- installation of a 350m deep ventilation shaft

It is proposed to use modern high-performance mining equipment for both development and stoping operations in order to continue to improve the productivity of the mine. Proposed equipment is listed in Table 5.4.

Table 5.4: Main Mobile Equipment for the 3 mtpy Mine

<u>Item</u>	<u>Type and Model</u>	<u>Quantity On Site</u>	<u>Additional Units Required</u>
Load-haul-dump machine for development operations	TORO 301DL	2	4
Drilling equipment for development operations	Monomatic 105-40	2	4
Diamond drilling unit for underground exploration	Boart Longyear LM55	1	1
Load-haul-dump machine for ore mining	TORO-007	2	10
Drilling equipment for stoping operations	AXERA #105D8447-1	2	4
Mine dump truck	MoAZ-75291	4	5

The equipment listed in Tables 5.5 has already been purchased and is currently spare on site. Commissioning of this equipment and at least two additional mining areas is expected to increase mine production to 1,250,000 tons in 2007.

Table 5.5: Additional Mobile Equipment On Site at Shalkiya

<u>Item</u>	<u>Quantity</u>
MoAZ-75029	2
TORO-007	2
AXERA — 07 ²⁴⁰ / ₂₆₀	2

5.4 Comments and Conclusions

As a result of AMC's review of the Shalkiya mine the following comments are made.

- Room and pillar mining as practiced at Shalkiya is very productive and ideally suited for cost effective mining of a large bulk mining project. In the Shalkiya situation it has the following advantages
 - Filling of the mined areas is not required, reducing mining cost and increasing productivity by simplifying the mining process.
 - There is very little difference between development and mining activities. Again this simplifies the mining process.
 - Because of the size of the resource, there is no shortage of working places. Machinery can therefore work continuously.
 - Fragmentation of the ore is good and very little secondary blasting is required. Consequently secondary breaking does not interfere with the production cycle.
 - The majority of development is in ore.
- AMC also considers that Slot Rise Open Stopping is the most appropriate method for mining steeply dipping sections of the orebody. AMC believes that the company has plans to introduce more mechanised methods for drilling the blastholes as well as mucking out the stopes and this should be encouraged as it can result in this type of mining becoming more productive and safer to operate.

- AMC considers that future studies may reduce the capital expenditure required for the mine expansion to 3 mtpy. Some of the current plans and designs date from Soviet times and can be updated with the introduction of more modern technology. In particular
 - AMC questions the need for an underground crusher, given the good fragmentation of the ore
 - the winder designs for the new shafts are inefficient and should be able to be improved, providing capital and operating cost savings.

6 SHALKIYA ORE PROCESSING

6.1 Metallurgical Characteristics

The zinc and lead minerals in Shalkiya ore are very finely disseminated in the silica, dolomite and calcite host rock and therefore require very fine grinding of the ore to liberate the valuable minerals. The presence of carbon in the ore further complicates the task as carbon floats naturally and, being relatively soft, tends to smear on the other minerals in the grinding mill tending to make them float unselectively in the flotation process. It is consequently necessary to provide for a separate carbon flotation process to be available for use when elevated carbon levels occur in the processing plant feedstock.

Much mineral processing test work has been carried out by a wide range of institutes and other organisations and, while the results vary, it is clear that good recoveries depends on the ore being ground to at least 80% passing 43µm. Recent mineral processing testwork undertaken by Outokumpu confirms this. The design of the new concentrator will take full account of these fine grinding requirements, carbon pre float requirements and the economic balance between optimal zinc recovery and final concentrate quality in terms of zinc grades and silica content.

6.2 Kentau Processing Operations

6.2.1 Current Operations

Ore mined at Shalkiya is processed at the Kentau concentrator located in Kentau, 165 km from the Shalkiya Mine.

The concentrator was built in 1964 to process 2.5 million tonnes of lead zinc barite ore that was mined locally and was subsequently expanded to process up to 4 million tonnes of ore per year. The reserves of the mine for which it was built were exhausted in 1990 and the mine closed.

During the latter part of the life of the local mine, ores from Karaganda and from Shalkiya were processed on a small scale. Shalkiya ore, grading in excess of 3% zinc, was processed from 1989 to 1994 at a rate of 65 tonnes per hour. During this period 65% of the zinc was recovered into concentrates grading from 43 to 45% zinc. The concentrator was finally closed in 1994 except for a small section which has been used intermittently for locally produced barite ores.

In 2003 ShalkiyaZinc purchased the property from Yuzhpolymetall, except for the use of 20% of the main concentrator building that continues to process barite ore, and then spent 2003 restoring the concentrator for the processing of trial quantities of Shalkiya ore at approximately 55t/h.

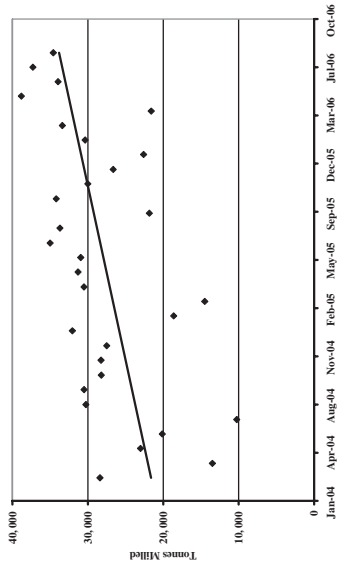
Ore has been processed at the Kentau concentrator by ShalkiyaZinc since February 2004 and production since then is summarised in Table 6.1 and illustrated in Chart 6.1.

Table 6.1: Kentau Concentrator Performance Under ShalkiyaZinc Ownership

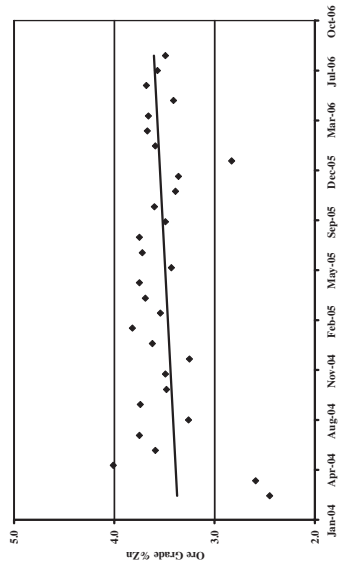
	Ore Processed			Lead Concentrate Produced		Zinc Concentrate Produced	
	tonnes	%Pb	%Zn	%Pb	Pb rec. %	%Zn	Zn rec. %
Feb-04							
Mar-04	28,391	1.01	2.45	28.5	51.7	37.7	54.9
Apr-04	13,491	1.04	2.59	35.5	40.1	45.2	54.5
May-04	23,017	1.62	4.01	37.4	40.2	50.0	65.0
Jun-04	20,134	1.38	3.59	36.4	40.7	50.1	63.5
Jul-04	10,255	1.71	3.75	29.0	37.7	47.0	59.5
Aug-04	30,268	1.36	3.26	31.0	44.4	45.4	61.8
Sep-04	30,500	1.62	3.74	34.8	39.1	46.6	59.4
Oct-04	28,216	1.38	3.48	40.2	35.7	46.5	65.4
Nov-04	28,250	1.37	3.49	37.5	38.8	46.5	65.1
Dec-04	27,500	1.37	3.25	35.2	36.9	47.8	62.5
Jan-05	32,060	1.44	3.62	33.8	41.7	46.6	62.2
Feb-05	18,616	1.57	3.82	34.0	41.4	49.0	63.1
Mar-05	14,502	1.46	3.54	36.5	43.9	47.0	59.5
Apr-05	30,512	1.54	3.69	35.2	34.5	45.3	62.2
May-05	31,292	1.57	3.75	35.2	33.1	46.6	70.1
Jun-05	30,943	1.42	3.43	35.4	46.2	46.4	70.7
Jul-05	35,004	1.57	3.72	32.7	35.1	46.0	65.6
Aug-05	33,700	1.83	3.75	33.0	45.6	47.2	70.0
Sep-05	21,850	1.58	3.49	35.1	38.8	47.4	59.0
Oct-05	34,188	1.56	3.60	32.8	34.3	44.4	60.3
Nov-05	30,006	1.65	3.39	38.3	35.0	43.3	60.8
Dec-05	26,633	1.57	3.36	31.9	31.2	43.8	58.1
Jan-06	22,605	1.21	2.83	32.8	35.9	44.3	55.7
Feb-06	30,369	1.54	3.59	34.5	28.8	43.4	54.4
Mar-06	33,377	1.42	3.67	35.2	32.7	46.5	66.0
Apr-06	21,598	1.38	3.66	33.7	39.8	45.9	58.6
May-06	38,819	1.46	3.41	34.8	33.9	45.1	61.7
Jun-06	33,950	1.71	3.68	34.4	33.2	44.8	60.0
Jul-06	37,282	1.50	3.57	36.0	34.5	45.1	60.2
Aug-06	34,576	1.50	3.49	33.6	32.1	44.7	60.7

Ore grades have risen slightly while the processing rate has increased significantly. Zinc metallurgical performance has remained relatively constant but lead metal recovery has decreased, although the concentrate grade has risen slightly.

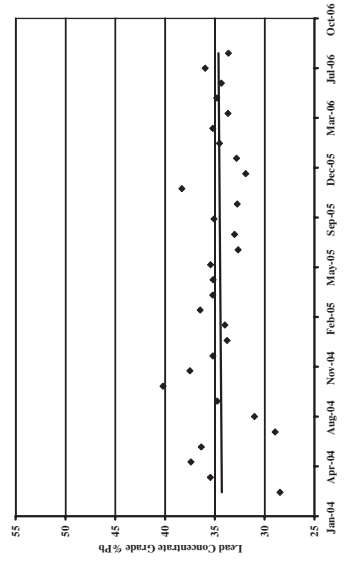
Ore grind has been fairly constant at about 88% finer than 74 µm. Fineness of grind at Kentau is recorded as the percentage of the ore by weight finer than 74 µm.



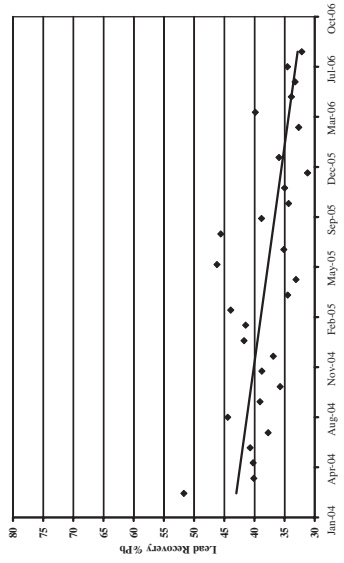
Processing Rate



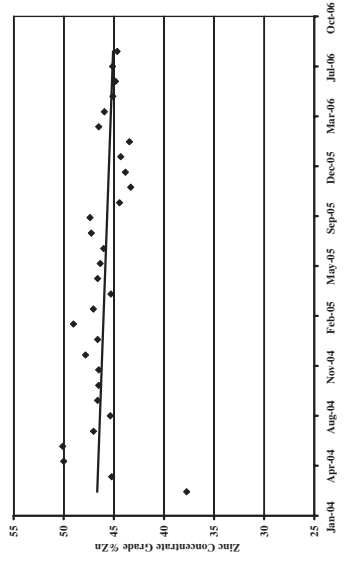
Zinc Ore Grade



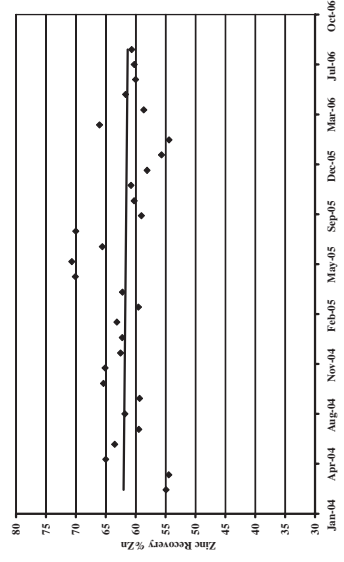
Lead Concentrate Grade



Lead Recovery



Zinc Concentrate Grade



Zinc Recovery

Chart 6.1: Kentau Concentrator Historical Performance

The main features of Kentau processing flow sheet are

- Shalkiya ore reception via rail transport from Shalkiya mine site
- secondary and tertiary crushing down to P80 of 20mm size
- primary grinding (ball mill) to 65% <0.074mm, capacity 55 tph ore
- Pb rougher flotation
- secondary grinding (ball mill) to 93% <0.074mm
- Pb rougher flotation 2nd stage
- Pb rougher concentrate cleaning in 4 stages
- Zn flotation from Pb flotation tailing
- Zn rougher concentrate regrinding (ball regrind mill)
- Zn rougher concentrate cleaning in 5 cleaning stages
- thickening of both (Pb and Zn) concentrates followed by vacuum filtration to moisture of 18% and 13% H₂O

Ore arrives at Kentau crushed to <150mm at the Shalkiya mine site. The secondary and tertiary crushing plant at Kentau is the same plant that was previously sized for 4 million tonnes per year. It consists of two 2200mm secondary crushers and two 2200mm tertiary crushers with vibrating screens ahead of the crushers. The plant was designed as an open circuit crushing plant producing fine ore nominally finer than 20mm. In practice, because it is an open circuit crushing plant there is a significant proportion of fine ore coarser than 20mm. This situation is being corrected by close circuiting the crushing circuit.

Two thirds of the existing tailings dam was closed down by government decision in 1999 and one third was retained for the use of Shalkiya Zinc and Yuzhpolymetall for the deposition of their tailing. The walls of the dam are constructed from gravel and soil excavated from borrow pits in the immediate vicinity and construction was in progress at the time of AMC's visit. The wall construction is the responsibility of Yuzhpolymetall, who are the owners of the dam.

6.2.2 Expansion to 1.5mtpy

The throughput of the Kentau concentrator has been constrained by restricted locomotive availability and the poor track condition of the private railway bringing the ore from the Government railway to Kentau. Shalkiya Zinc proposes to spend \$1m to upgrade the track between the main line and Kentau and then to secure the availability of initially one and then a second additional locomotive in order to increase the capacity of the rail system and remove this constraint.

At present only one of the secondary crushers and one of the tertiary crushers at Kentau is serviceable, but even in this configuration, the capacity of the plant should be ample for the proposed expansion.

The Shalkiya Zinc Business Plan proposes to increase the concentrator throughput by re-commissioning two more primary ball mills and two more secondary ball mills, to give a capacity of first 1.25 and eventually 1.5 million tonnes per year. The concentrator presently operates with one primary ball mill and one secondary ball mill. Only rarely has the target fineness of grind (95% <74µm) been achieved and only during 12 hour shifts when less than 650 tonnes has been milled. To achieve a throughput of 500,000 tonnes per year, assuming 90% plant utilisation, each shift must grind 761 tonnes of ore. In the first three weeks of July 2006, the average fineness of grind for shifts when more than 760 tonnes of ore were milled was 87% finer than 74µm.

When the transport difficulties are overcome and a sufficient and regular supply of ore is available, the ability of the present concentrator to process 500,000 tonnes of ore per year is reasonably well established, but the target fineness of grind is not being achieved. If one primary mill will process 500,000 tonnes per year, then it is reasonable to assume that the proposed three mills of the same size will process 1,500,000 tonnes per year.

Expanding the plant from one grinding circuit to three identical grinding circuits will increase the capacity to 1.5 million tonnes per year but will not, at the same time, enable the ore to be ground finer. At present the crushing plant is being converted to a closed circuit and this should reduce the size of the fine ore to <10mm and the particle size of the fine ore by about 10 microns. It is estimated that this should improve the zinc recovery by about 2%.

Many of the existing flotation cells are old and in poor condition. Because they are of the cell-to-cell type, the wear of the machines influences both the control of pulp flow and the ability adequately to aerate the pulp in the cells. Shalkiya Zinc has made provision for the purchase of 60 new flotation machines in the capital plan for upgrading the concentrator so that the worst of the existing machines can be replaced. This also has the potential to afford a marginal improvement in recovery. The proposal in the plan to operate three separate circuits is endorsed, because of the small size of the flotation cells at Kentau. If the expanded plant were operated as a single circuit, it is likely that pulp level control would be difficult at the increased rate of flow along each bank of cells.

AMC estimates that a throughput of 190 tonnes per hour will be necessary to achieve 1.5 million tonnes per year. The corresponding volume throughput will be about 640m³/h. For 30 minute lead flotation residence time, the required cell capacity is:

$$(636 \times 30/60)/0.85 = 374\text{m}^3$$

The existing capacity is 250m³, so an additional 125m³ is required for lead flotation, say twenty 7m³ cells.

For 20 minute zinc flotation residence time, the required cell capacity is:

$$(636 \times 20/60)/0.85 = 249\text{m}^3$$

The business plan indicates that the existing capacity is already 260m³ so this is apparently sufficient.

At present, two 24m diameter thickeners are used for zinc concentrate and one for lead concentrate. At a mill throughput of 1.5 million tonnes per year, the maximum quantity of zinc concentrate to be produced will be about 87,000 tonnes per year, or, at 90% plant availability, 265 tonnes per day. One 24m thickener has a surface area of 4,870ft² so just one thickener will provide over 18ft² per tonne of concentrate per day. Typical zinc concentrator installations provide between 3 and 7 ft² per tonne per day. The lead concentrate thickener is similarly generously sized for the proposed duty. It is concluded that the thickeners are amply sized for the required duty.

There are three 40m² zinc concentrate filters. Using just one filter for 265 tonnes of concentrate per day would require 276kg/m²h throughput. Typical throughputs of zinc concentrate on vacuum drum filters range between 300 and 600 kg/m²h. It is concluded that the filter capacity is ample for the required duty. There are also two functioning 40m² lead filters and their capacity is also more than sufficient.

The central tailings dam wall which divides the dam, and the perimeter walls of the part still in use are presently at an altitude of 468m above sea level, and these can be extended by the upstream method, according to the Kazmechanobr design, to a height of 476m above sea level. This increase in wall height will be undertaken in two lifts of 4m each and will provide capacity for a further 8 million tonnes of tailing. Of this capacity, Yuzhpoly metall will occupy only a very small part as they produce approximately 150,000m³ of barite tailing during 2 to 3 months of each year.

The tailings pumps are already adequate to pump to the raised tailings dam height.

It is concluded that the tailings dam capacity at Kentau is more than sufficient to meet the requirements of Shalkiya Zinc's production expansion plan.

6.3 New 3mtpy Concentrator at Shalkiya

6.3.1 Overview

Outokumpu Oy of Finland have undertaken studies to the pre engineering design level for the design of a concentrator to process 3 million tonnes of ore per year to be built at the Shalkiya mine site. These studies are considered by AMC to be of pre-feasibility level of precision and the capital cost estimates are therefore considered to have an accuracy of $\pm 25\%$.

Outokumpu has prepared three concepts in their pre engineering design work for the production of Zn concentrates, based on their most recent mineralogical test work. The concepts are summarised below in terms of flow sheet, main equipment and capital cost variations.

Concept 1

The production of separate high (>55%Zn, SiO₂<5%) and low (about 45%Zn, SiO₂>18%) grade Zn concentrates by classifying Zn concentrate into fine and coarse fractions. Overall Zn recovery, combining low and high grade Zn concentrates, is estimated to be 75%.

Concept 2

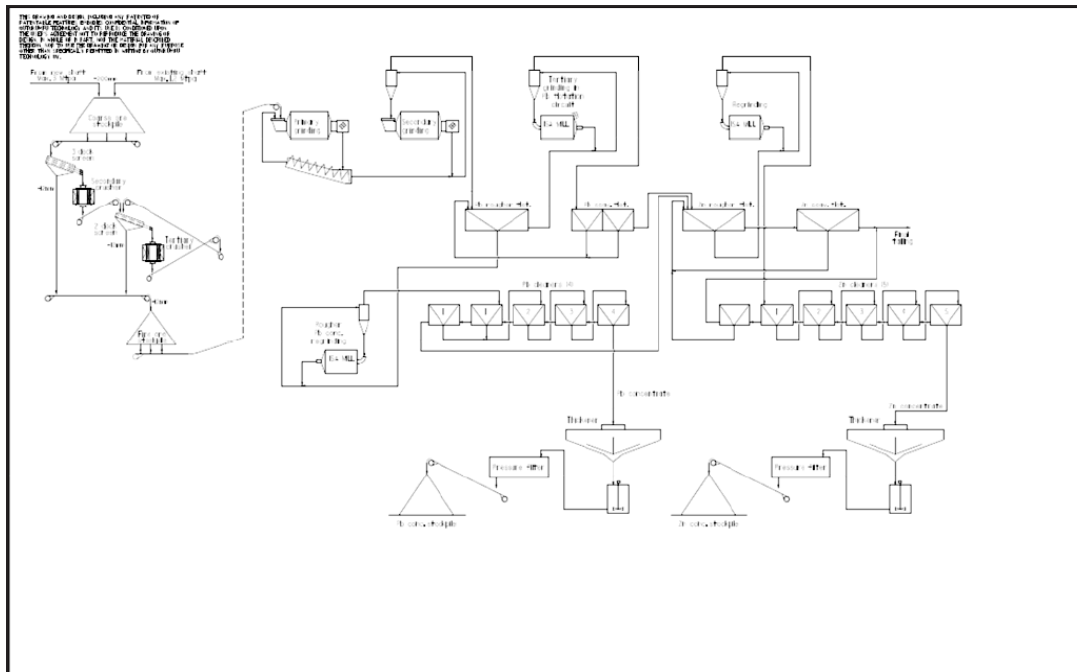
The production of a low grade Zn concentrate only (45% Zn, SiO₂>20%) to maximize Zn recovery to 80%.

Concept 3

The production of medium grade Zn concentrate (51-52%Zn, SiO₂>10%) at 75% Zn recovery.

The basic grinding and flotation flow sheet for all three concepts is the same and varies only in the Zn concentrate classification and dewatering for Concept 1. The flow sheet is illustrated in Chart 6.1.

Chart 6.2: Basic 3 mtpy Shalkiya Concentrator Flowsheet



6.3.2 Process Description

Ore will be hoisted up the existing Production Shaft system at a rate of up to 1.2 mtpy and up the newly equipped Hoisting Shaft at a rate of up to 3 mtpy. Both shaft systems will deliver ore crushed to <150mm size onto belt conveyors that will transport the ore onto a coarse ore stockpile with a capacity of 9,000 tonnes.

Stockpiled ore will be withdrawn by feeders and conveyed to a triple deck screen ahead of the secondary crusher. The bottom deck will have a woven wire fabric with a 12mm square aperture while the upper decks are intended to protect the lower deck from the impact of coarse ore. Screen undersize will be conveyed to the fine ore stockpile and all screen oversize will gravitate to the secondary cone crusher.

Secondary crusher product will be conveyed to a double deck vibrating screen ahead of a tertiary cone crusher. Lower deck undersize at <12mm will join the secondary screen undersize on the conveyor to the fine ore stockpile. Oversize from both decks will gravitate back to the tertiary cone crusher. The crusher product will be conveyed back to the tertiary crusher screen.

This closed circuit crushing plant will ensure that a consistently sized fine ore will be delivered to the mills regardless of ore type and crusher wear.

Ore will be drawn by feeders from the fine ore stockpile and delivered to a 6m diameter, 8.5m long primary ball mill, driven by a 5.5mW motor, designed to reduce the ore to 300µm top size. Mill discharge will be pumped to a hydrocyclone, whose underflow will be returned to the mill. Cyclone overflow will be directed to the secondary mill sump, where it will join the mill discharge being pumped to the secondary mill hydrocyclones while cyclone underflow will feed the secondary ball mill. This mill will also be 6m diameter and 8.5m long and be driven by a 5.5mW motor.

The secondary ball mill will reduce the ore down to 0.074mm size for Pb rougher flotation. Tertiary grinding will further reduces ore down to 0.028mm before Pb scavenger flotation followed by Zn flotation.

The secondary mill cyclone overflow, at a particle size finer than 75µm, will gravitate to the primary lead flotation bank, the first cell of which may, optionally, be used to float organic carbon before xanthate lead collector is added. The tailing from primary lead flotation will be pumped to the tertiary mill hydrocyclones. Overflow from these cyclones will join the tertiary mill discharge going to lead scavenger flotation.

Conventional ball mills become progressively less efficient at very fine grind sizes and Outokumpu recommend that samples be tested by Xstrata for the sizing of Isamills, an Australian development. Provisionally, they estimate that 3 of the largest size M10000 mills, each fitted with a 3mW motor, will be required. Outokumpu foresee that these mills will operate in open circuit with the tertiary cyclone overflow combined with the mill discharge feeding the lead scavenger flotation.

The lead scavenger concentrate will be returned to the lead rougher cells. The lead rougher concentrate will be pumped to the cyclone ahead of the lead concentrate regrind mill, for which duty a smaller M3000 Isamill with a 1.12mW motor is anticipated. Cyclone overflow will join the mill discharge at a particle size of 80% finer than 15µm as feed to the first lead cleaner flotation cells. The lead concentrate will be cleaned in four stages, with the concentrate from each stage passing to the following stage and the tailing from each stage reverting back to the previous stage. The first cleaner tailing will join the lead scavenger tailing as feed to the zinc flotation circuit.

The lead scavenger tailing will flow to a conditioning tank where the pH will be raised to 11.5 with lime addition, copper sulphate will be added to reactivate the zinc and a strong xanthate collector will also be added. Zinc rougher and scavenger flotation will follow. The scavenger concentrate will be recycled to the head of the rougher flotation and the rougher concentrate will be classified in a bank of hydrocyclones, whose underflow will be reground in another Isamill, a M10000 unit with 3mW drive, to reduce the particle size to 80% finer than 17µm, before being combined with the overflow and cleaned in five stages. The first cleaner tailing will pass to a cleaner scavenger flotation stage, from where concentrate will revert back to the head of the zinc flotation circuit and tailing will join the scavenger tailing as the plant final tailing which will be pumped to the tailings dam. It is anticipated that the pH will be reduced to 6.5 by acid addition in the second cleaner stage.

For Concept 3, Outokumpu anticipate that this new plant will achieve 50% recovery of lead to a concentrate grading 43%Pb and 75% recovery of zinc to a concentrate grading 52%Zn. These projections are well supported by the test work that has been carried out, although further tests are needed to confirm the numbers and sizings of the fine grinding mills and confirm the detailed arrangement of the flotation flowsheet.

The final zinc concentrate will still contain about 11% SiO₂ and may thus remain unacceptable to some zinc plants. Outokumpu have suggested for their Concept 1 that the final zinc concentrate can be classified using small hydrocyclones into coarse and fine fractions. Based on their test work, they anticipate that 60% of the weight of concentrate could be recovered into a fine fraction (<20µm) in which 49% of the total zinc would be in a high grade concentrate grading 56% zinc and 5% SiO₂, leaving 26% of the zinc in a coarser (>20µm) low grade concentrate containing 45.5% zinc and 20% SiO₂. It would be expected in normal circumstances that both of these concentrates could be sold, but it may be preferable in some market circumstances to regrind the coarse low grade concentrate in the Isamill being fed by the zinc circuit hydrocyclone underflow and re-process it.

Outokumpu have estimated a preliminary capital cost estimate for the new process plant of US\$87 million. This estimate is preliminary and should be considered accurate to within ±25%.

6.3.3 Construction Schedule

Basic engineering stage

The processing plant delivery project will include a basic engineering stage taking about six months to complete. The actual time for this stage will depend on the amount of additional test work required before and during the basic engineering phase. Basic engineering will establish a reasonably accurate cost estimate for the project and test work will establish the key equipment design criteria, such as for fine grinding and dewatering of concentrates, and confirm the selected process concept parameters. For Shalkiya a test work program has been recommended as an essential part of the basic engineering stage.

Detailed engineering and construction stage

The time frame for the completion of the construction stage is dependant on the longest equipment fabrication time, normally the grinding mills, from the order of the equipment and therefore the estimated time to complete the construction stage may vary from 12 to 24 months. At present lead times for large grinding mill fabrication are perhaps 18 months and this may impact on the project completion time that has been estimated to be approximately 24 months.

6.3.4 Equipment and Capital Works

Outokumpu have provided a preliminary capital cost estimate for the concentrator, including equipment for finer grinding, of \$87 million. This estimate is preliminary and based on their Pre Engineering Study that has a stated accuracy of $\pm 25\%$.

The total processing plant capital cost range across Outokumpu's three Concepts is between \$87m and \$91m. Capital cost variations between the concepts are not material because of only small variations in equipment configuration and size between them. The more important issue is process control, which has a major effect on the quality of Zn concentrates.

6.4 Comments and Conclusions

As a result of AMC's site visit and subsequent discussions with ShalkiyaZinc personnel the following comments are made

- It has been demonstrated in test work conducted by many organisations over many years that the required grind for satisfactory liberation of the minerals in Shalkiya ore is at least 83% finer than 43 μm . At Kentau, this has been loosely interpreted as 95% finer than 74 μm but this interpretation is unsatisfactory for control purposes. The fineness of grind should be recorded as the percentage finer than 43 μm (325 mesh).
- The proposed upgrading of the Kentau concentrator will ensure increased capacity for the treatment of ore but will leave the metallurgical performance unchanged due to its inability to increase the fine grind of the ore. However, it is anticipated that a metallurgical performance increase will result from closing the crushing circuit. Based on this and historic metallurgical performance, it is anticipated that in the Kentau concentrator, 64% of the zinc will be recovered to a concentrate containing 46% zinc and 40% of the lead will be recovered to a concentrate containing 39% lead.
- While it is too early to select one of Outokumpu's Concepts with confidence, at this time Concept 3 of the Shalkiya concentrator proposals appears to be the most attractive as it provides improved metal recoveries and zinc concentrate grades and significantly reduces the level of silica in the zinc concentrates.
- Concept 2 proposes a lower grade concentrate to maximise recovery at 80%. This concept may only be of benefit if, as suggested by Outokumpu, a direct leach zinc plant is installed at the Shalkiya mine site. Outokumpu's preliminary work demonstrates that this Concept does have economic merit and so it should be studied in more detail, despite its significantly higher capital cost.
- Improvement in metallurgical performance in the 3 mtpy concentrator will result from
 - crushing down to 12mm
 - finer grinding (down to P80 of 0.030mm)
 - use of ultrafine grind technology, such as IsaMills, in the 3rd grinding stage
 - use of carbon pre flotation
 - better flotation control through reagent dosage and new flotation equipment
 - use of in stream metal analyzer and computer control in the grinding and flotation process
 - use of pressure filters in concentrate dewatering
- Zinc recovery at the Kentau concentrator at present is 61% at a concentrate grade of 45%Zn and 15% SiO₂. In the new 3 mtpy processing plant Zinc recovery may increase to 75% or better with concentrate grade of over 50%Zn and 11% silica. This improved Zn metallurgy has been demonstrated by Outokumpu's testwork but needs to be confirmed by additional work during the basic engineering stage.
- Enhanced technology in the new plant can also be expected to improve Pb metallurgical performance and Pb concentrate grades will most likely be greater than 40%Pb with metal recovery of around 50%. These estimates will also need to be confirmed during the basic engineering phase.

7 SHALKIYA ENVIRONMENT, HEALTH AND SAFETY

7.1 Environmental Impact

The Shalkiya mine is located in sparsely vegetated semi desert steppe country. Because mining is by underground methods and there is no concentrator at the site its only historical and current impact on the surface environment is its surface infrastructure and the mine water discharge pond, as shown in Plate 2.

A list of the main licenses and permissions that regulate ShalkiyaZinc's environmental performance, at both its Shalkiya mine site and Kentau ore processing operations, is presented in Annexure F.

7.1.1 Shalkiya Mine Site

Ore is extracted by underground blasting and drilling operations. In order to reduce pollutant emissions into the underground atmosphere, water is liberally used to lay dust and remove gases from the air. Calculations and observations are regularly carried out to ensure that flows of ventilation air through underground workings are adequate to ensure that employees are not exposed to significant levels of dust and blasting gas concentrations in their underground workplaces.

A network of dedicated airways and surface mounted extraction fans have been installed to ensure that ventilating air reached all working areas underground.

Waste rock and ore is stockpiled in the vicinity of the crushing complex in dedicated and well maintained stockpile areas. An area of 5 hectares has been designated as a waste rock stockpile area and this is capable of storing 400,000 m³ of rock. The possibility of selling this material as construction materials is being considered.

The main commercial waste product from the mine is equipment tyres. Old tyres are disposed of by using them for various purposes around the mine site.

The major environmental impact of the proposed production expansion to 3 mtpy will be the construction of the ore processing plant and associated tailings dam at Shalkiya. These installations are being professionally engineered.

7.1.2 Kentau Ore Processing

Lead-zinc ore from the Shalkiya mine is processed at the Kentau concentrator. Air filtration equipment is installed at this plant to remove dust and gases generated by the ore processing operations in the buildings.

Tailings from the concentrator are disposed of in accordance with a contract with Yuzhpolimetall at the Bayaldyr tailings dam in Kentau. Management of the tailings dam is the responsibility of Yuzhpolimetall for the one third of its area that is still in operation while the responsibility for rehabilitation of the remaining section that has been closed lies with the Kazakhstan government.

7.1.3 Environmental Management Plan

Environmental management plans are in place at both the Shalkiya and Kentau operations sites and are being continually updated. Ecological monitoring is conducted annually by state licensed contractors.

Some of the measures currently being undertaken to improve environmental management and monitoring include

- The installation of monitoring bores at the mine water disposal pond and the processing plant tailings dams.
- Improvements to the environmental monitoring process
- Improved methods for disposal of domestic and industrial wastes

7.1.4 Mine Closure

Work required at mine closure and its cost has been estimated by Kazakhstan Mining Institute and confirmed by Mr M.N.Zamosch, environmental auditor. The relevant extract from Mr Zamosch's report is included as Attachment G.

The cost of work required at mine closure is estimated to be about US\$9.2m, of which US\$8.9m is estimated to be required to reclaim the tailings storage facility.

7.2 Occupational Health Management

The only significant occupational health issue for the Shalkiya mining complex is the high silica content of dust generated during the mining and ore processing operations, and the consequent danger of silicosis affecting employees' health. ShalkiyaZinc is aware of this issue and incorporates measures to firstly minimize the generation of dust and then to control any dust that is generated during the operating processes by adequately ventilating the workings.

The mine operates for 340 days per year with two shifts of eleven hours each per day underground and two eight hour shifts per day on the surface. Personnel rotate between day and night shift on a two weeks on and two weeks off roster.

The Kentau concentrator operates for 340 days per year with two shifts of 12 hours each per day. Personnel rotate between day and night shift.

There are 411 persons employed at the mine and accommodation and canteen facilities are provided for those employees who do not live locally. Approximately 278 persons are employed at the Kentau concentrator. They live in the adjoining Kentau town.

7.3 Safety Management

There have been two fatalities at the Shalkiya mining complex since ShalkiyaZinc recommenced operations in 2004, one each at Shalkiya and Kentau. Both can be attributed to human error by the deceased.

ShalkiyaZinc has comprehensive safety management plans at both Shalkiya and Kentau. All new employees are subjected to a comprehensive minesite induction process where safety is emphasised as a priority in work processes.

A medical station is maintained at the Shalkiya site and hospital facilities are available at Zhanakorgan, 15 km from the mine. The mine maintains an ambulance on site.

7.4 Comments and Conclusions

As a result of its technical review of ShalkiyaZinc's operations AMC makes the following comments.

- ShalkiyaZinc appears to have all necessary environmental licenses and permissions in place and, as far as AMC is aware, its operations comply with those licenses and permissions.
- Because of the measures ShalkiyaZinc has in place to control dust generation, there is no indication that silicosis is a problem in the workforce.
- Work rosters at Shalkiya and Kentau conform to internationally acceptable standards.
- ShalkiyaZinc's safety management appears to comply with internationally acceptable standards.

8 CASH FLOW AND VALUATION

AMC has reviewed ShalkiyaZinc's Business Plan and adjusted it where necessary to construct a valuation model for the Shalkiya mining complex. The model has been constructed in real terms and is pre business corporate tax and without financing considerations.

8.1 Production Schedule

ShalkiyaZinc's Business Plan for the Shalkiya mining complex is based on a staged production increase from the current 500,000 tpy to 3 mtpy from the year 2010 onwards. Based on currently estimated Mining Reserves, it is expected that this mining rate can be maintained for at least 25 years, and that the mine life will therefore extend past the 30 years that has been assumed in the Production Schedule.

Production grades used in the early years of the Plan are derived from detailed analysis of Shalkiya's Kazakh Reserves adjusted for ore loss during mining and dilution of the mined ore by waste rock. In later years, and in particular when reserves in the South East section of the mine are extracted, more generalised grades are used.

AMC has reviewed metal recovery forecasts for the upgraded Kentau and proposed Shalkiya concentrators and has used the recoveries shown in Table 8.1.

Table 8.1: Metal Recovery into Concentrates for Various Shalkiya Concentrators

	Metal Recovery to Concentrates	
	Pb%	Zn%
Current Kentau Concentrator	34	61
Upgraded Kentau Concentrator	40	64
Shalkiya Concentrator	50	75

Outokumpu confirms that 75% of zinc metal in ore fed to the Shalkiya concentrator is expected to be recovered to concentrates.

Improvements in the metal grade of concentrates and a consequent reduction in silica content are also expected to result when the Kentau concentrator is upgraded and the Shalkiya concentrator is commissioned, as shown in Table 8.2.

Table 8.2: Metal Content of Concentrates for Various Shalkiya Concentrators

	Metal Content of Concentrates	
	Pb%	Zn%
Current Kentau Concentrator	34	45
Upgraded Kentau Concentrator	39	47
Shalkiya Concentrator	43	52

8.2 Sales and Revenue

8.2.1 Concentrates Sales

Shalkiya Zinc produces mineral concentrates of lead and zinc. Both concentrates are of lower metal content than is typical for lead and zinc concentrates because of the fine-grained mineralogy of the ore.

The lead concentrate contains about 34% lead in the form of galena. It also contains about 5 to 7% of zinc and 2 to 4% of pyrite with the remainder of the concentrate being made up of quartz and dolomite.

Pb concentrate can be sold and there are no major penalty elements in the Pb concentrate, but revenue per unit of metal in concentrate will be increased when the concentrate quality improves, and the freight cost per unit of metal will correspondingly decrease. The revenues received from the sale of Pb concentrates are less important to Shalkiya as Pb concentrate represents on an average only about 10-12% of the total sale revenues.

The zinc concentrate contains about 45% zinc in the form of sphalerite and is at the lower end of the range of zinc contents of commercially traded concentrates. There is about 2 to 3% of lead and 15% silica in the concentrate with the remainder of the concentrate consisting of a small amount of pyrite and dolomite.

The main problem lies in the silica content, which is much higher than some zinc plants will accept without penalty.

Since commencing operations in 2004 the Company has sold the majority of its zinc concentrate to Almalyk Smelter, a state-owned plant in Uzbekistan, located 350 km from the Kentau Plant. Almalyk Smelter has an annual processing capacity of approximately 200,000 tonnes of zinc concentrate but currently processes only 70,000 tonnes of zinc concentrate annually. The Company has chosen to sell the majority of its output to Almalyk Smelter because of the relatively lower transportation costs and low treatment charges and other attractive commercial terms in the off-take agreement.

The Company supplies its zinc concentrate output to Almalyk Smelter under the terms of a supply contract between the Company and Cheriton Finance Limited, a UK based trader. The contract was entered into on 21 February 2006 and has recently been renewed on the same terms and conditions until 31 December 2008.

The supply contract is based on floating prices directly linked to zinc quotations on the LME and adjusted for a number of factors including transportation costs, the Treatment Charge, losses of metal during processing, the grade of the concentrates and the level of concentration of non metallic substances in the concentrate, such as moisture and silica.

ShalkiyaZinc has used the following factors in its Business Plan

- Treatment Charge: \$130 per tonne of concentrate
- Realised Metal Price: 83% of LME price (net of penalties)

ShalkiyaZinc has identified a number of other potential customers that are able to process the Company's concentrates. These include the Kazakhmys Zinc Smelter located near the town of Balkhash in Kazakhstan and 1,300 km from the Kentau Plant, KazZinc, a Kazakhstan metals company, five zinc smelters in the neighbouring north western region of China and 17 other zinc smelters in southern and south eastern regions of China. The Chelyabinsk Smelter in Russia is another major potential customer for ShalkiyaZinc's zinc concentrate. Although at present the Chelyabinsk Smelter is not equipped to process the Company's concentrates it is in the process of upgrading its plant should be able to do so by 2007.

At present, ShalkiyaZinc sells its entire output of lead concentrate to two traders based in China, Bozhou Alashankou, Sheng Kun Trade Co., Ltd. ("Bozhou") and Boertala Mongolian Autonomous Prefecture Alashankou Ji Lin Trade Co., Ltd ("Boertala"). The Company has been selling lead concentrate at prices linked to lead metal prices quoted on the LME and considers that a flat rate of 63.4% of the LME price adequately represents their realised metal price for lead in lead concentrates.

The Company supplies lead concentrate to Bozhou pursuant to a lead product supply contract dated 20 October 2005, as amended. This contract remains in effect until 31 December 2006.

Other potential purchasers of lead concentrate include JSC Yuzhpolimetal Smelter and KazZinc in Kazakhstan, ElectroZinc, located in Vladikavkaz in Northern Russia and five smelters in the north western region of China.

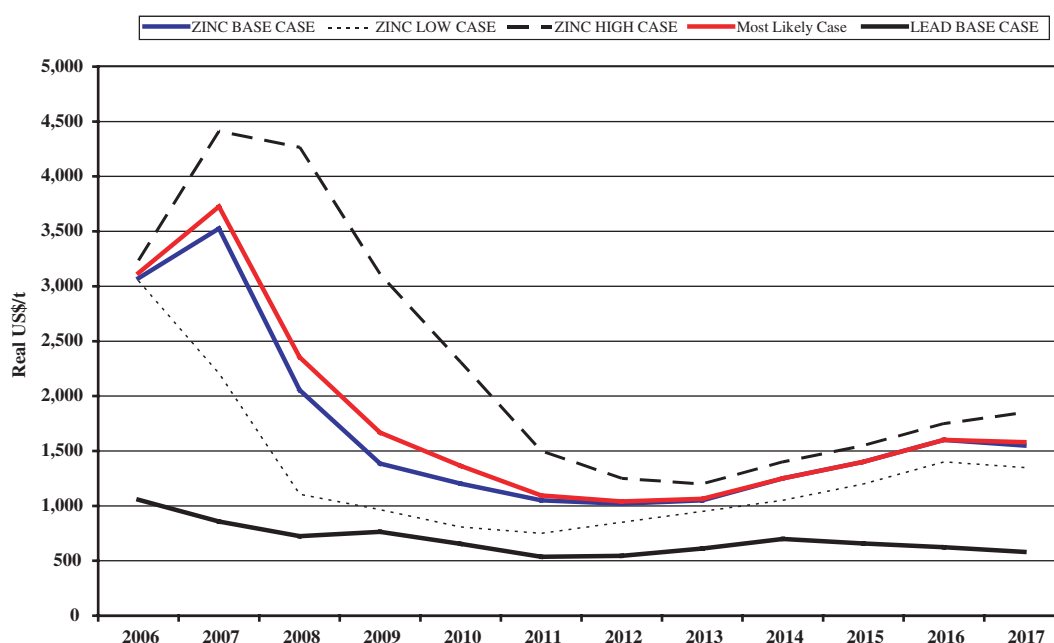
8.2.2 Metal Prices

For the purposes of cash flow and valuation calculation AMC has used recent metal price forecasts supplied by Brook Hunt, specialists in this field.

With regard to zinc metal prices, Brook Hunt has supplied base, high and low case forecasts for the coming ten years, and the probability of those cases occurring. AMC has used this information to calculate a most likely case and has used that in its calculations. Brook Hunt supplied a base case only forecast of future lead metal prices. All metal price information used is in real terms. The Brook Hunt information and AMC's most likely outcome case is shown in Figure 8.1.

From the year 2013 onwards AMC has used an average metal price value, calculated from Brook Hunt's supplied price cycle.

Chart 8.1: Metal Price Forecasts



8.3 Costs

8.3.1 Operating Costs

Operating costs in ShalkiyaZinc's business plan include

- Ore mining
- Ore processing
- Transport of ore to the Kentau concentrator
- Transportation of metal concentrates
- General and administration expenses
- Royalties and production related taxes

ShalkiyaZinc have not built future operating cost estimates based on first principles. Detailed estimates of employee requirements at higher production levels have been made and this, together with forward projections of factored current costs has been used as the cost forecasting basis. The forecasts have been adjusted to take account of major cost reducing factors, including

- Economies of scale at higher production rates. ShalkiyaZinc proposes that employee numbers at the mine will rise from the current 411 to 1,450 at the 3mtpy rate. Production will increase 6 fold but employee numbers are planned to only rise at half that rate. Labour costs in any case are low, averaging \$2,600 per person per year.
- Reduced electric power cost. Power will be purchased wholesale rather than retail as is currently the case and this is expected to reduce power cost significantly.
- Cessation of ore transport to Kentau when the Shalkiya concentrator is constructed

- Increased processing efficiency from the new Shalkiya concentrator, including
 - reagent unit costs reduced by 30%
 - lower moisture content in concentrates
 - higher concentrate grades

ShalkiyaZinc's operating costs forecast in its Business Plan are summarised in Table 8.3.

Table 8.3: Shalkiya Unit Costs at Increasing Production Rates

<u>Cost Item</u>	<u>Production Rate</u>		<u>Comment</u>
	<u>Estimate at 500 ktpy</u>	<u>Estimate at 3,000 ktpy</u>	
	<u>\$/t</u>	<u>\$/t</u>	
Mining	8.79	5.06	Economies of scale
Transportation	4.50		Not required
Processing	11.00	7.64	Cheaper electricity and reduced reagents usage
Transportation of concentrates	0.96	1.06	
General and administrative expenses	6.30	1.28	Economies of scale, some fixed costs
Taxes excluding corporate income tax	1.68	0.45	Some fixed cost taxes
Royalty	0.57	0.32	
TOTAL	33.80	15.81	
Cost per Tonne of Zinc Concentrate	572	224	
Cost per Tonne of Zinc in Zinc Concentrate	1,272	444	
Cost per Tonne of Lead Concentrate	116	90	
Cost per Tonne of Lead in Lead Concentrate	339	201	

The processing cost for the 3 mtpy production rate has been adjusted downwards from the Business Plan estimate based on recent information supplied by Outokumpu

8.3.2 Capital Costs

ShalkiyaZinc has estimated capital costs to bring the Shalkiya mine to 3 mtpy production capacity in detail. The company has been assisted in doing this by Outokumpu, both in estimating processing plant construction costs and mine expansion costs. A summary of this planned expenditure is shown in Table 8.4.

Table 8.4: Shalkiya Mine Complex Expansion Capital Summary

<u>Cost Item</u>	<u>Capital Cost</u> <u>\$'000</u>
Increase the Shalkiya mine capacity to 1.25 mtpy	2,957
Increase the Kentau concentrator capacity to 1.25 mtpy	11,310
Repair the railway from Borisovka station to Kentau station	1,000
Construction of the 220 kW substation at Shalkiya mine	900
TOTAL FOR EXPANSION TO 1.5mtpy	16,167
Expansion of the Shalkiya mine to 3 mtpy	38,732
Construction of the new 3 mtpy concentrator at Shalkiya	87,000
Infrastructure works at Shalkiya	5,000
TOTAL FOR EXPANSION TO 3mtpy	130,732
TOTAL FOR EXPANSION	146,899

AMC has also reviewed mine sustaining capital costs to align the equipment replacement schedule with standard industry practice.

A detailed cost estimate for the equipment and materials for the restoration of one complete section of the Kentau concentrator has been prepared and the total of this is amounts to \$5.7 million. The present Business Plan assumes that the refurbishment to provide a capacity of 1.25 million tonnes per year can be completed for twice this amount as shown in Table 8.4. AMC consider this to be a reasonable estimate.

8.4 Valuation of Shalkiya Mining Complex

8.4.1 Base Case Valuation

Based on the above assumptions, AMC has calculated the base case net present value of the Shalkiya mining and processing complex as US\$393m, using a 10% discount factor and 30 year span of operations.

AMC estimates that the mine break even grade based on the above assumptions is 2.3% Zn eq. Given that the mining reserve used to provide ore production for the 30 year production plan is based on 3.0 Zn eq% cut off grade the mine has been considered to remain a going concern at the end of year 30 and so no mine closure costs have been included in the NPV calculation.

Some variations to the base case are shown in Table 8.5.

Table 8.5: Alternative Shalkiya Valuation Scenarios

<u>Scenario</u>	<u>NPV</u>
Base Case, discount rate 8%	510
Base Case, discount rate 10%	393
Base Case, discount rate 12%	308

8.4.2 Risks and Sensitivity

Sensitivity calculations are shown in Table 8.6.

Table 8.6: Shalkiya NPV Sensitivity to Key Parameters

<u>Parameter</u>	<u>Change</u>	<u>NPV</u>
BASE CASE		393
Production Rate	+10%	484
	-10%	301
Ore Grades	+10%	488
	-10%	298
Metal Recovery	+10%	488
	-10%	298
Metal Prices	+10%	506
	-10%	280
Operating Costs	+15%	333
	-15%	433
Capital Expenditure	+25%	388
	-25%	452

8.5 Comments and Conclusions

As a result of AMC's site visit and review of relevant documentation the following comments are made

- AMC has reviewed ShalkiyaZinc's plans for a staged production increase from the present rate of 0.5 mtpy to 3.0 mtpy in Year 2010 and believes that given good project management they can be achieved. On that basis, AMC accepts the production schedule as presented in Shalkiya's Business Plan.
- The mine production grades used in the Business Plan are those developed using Kazakh methodology. As stated in Section 4 of this report, AMC is in the process of re-estimating ore reserves based on the JORC process and classification system.
- AMC believes that reserves estimated under the Kazakh system have been professionally prepared and expects that JORC Reserves will produce similar results. AMC therefore considers that the production grades used by ShalkiyaZinc in its Business Plan are reasonable.
- The mine expansion project has been studied to pre-feasibility study levels of accuracy and consequently information associated with it and forecasts of economic outcomes from completing it should be considered to be of +25% accuracy.
- At the present time, many zinc smelters are short of concentrates and so it is not difficult to sell Shalkiya's concentrates. However, at times when there is plentiful concentrate supply it may prove to be more difficult to sell concentrate with the specifications currently being produced.

- Outokumpu have carried out test work to investigate the silica content of Shalkiya's concentrates. They have found that it is possible using a hydrocyclone to separate Shalkiya zinc concentrate into a coarse and a fine fraction. The fine fraction is much lower in silica and should be generally acceptable to the market while the coarse fraction may still be acceptable to markets which are not sensitive to the silica content. In concept, the coarse fraction could be reground and refloated, to eliminate the silica, but there would be significant losses. Outokumpu predict that silica content of concentrate from the Shalkiya concentrator will be around 11% silica from the new plant, significantly reduced from the current 15 to 20%.
- Leaching of the concentrate has also been tested to see if the silica is dissolved in a zinc leaching plant. Reportedly, because the silica is in the form of quartz, very little is dissolved, so the silica may be less of a barrier to sales to leaching plants such as, for example, Balkhash.
- ShalkiyaZinc has a two year sales contract in place for its zinc concentrates. This is not unusual in the base metals industry but it means that it is difficult to accurately forecast long term sales terms for concentrates as these will result from commercial negotiations that are influenced by global economic conditions at the time of the negotiations. However, AMC believes that the concentrate sales factors assumed in Shalkiya's Business Plan are not unreasonable.
- ShalkiyaZinc has not built any real cost increases into its operating cost forecasts. Real cost increases may result from, for instance
 - Increased employee costs, greater than the assumed inflation rate
 - Spikes in consumables costs, such as fuel
 - Increased mining ore transport costs as the mining front moves further away from the haulage shaft
- Balanced against this it is fair to assume that as time progresses, and with sound management, ShalkiyaZinc will be able to achieve general efficiency increases in its operations, similar to what has been demonstrated in the mining industry in general.
- Taking this into account, AMC believes that ShalkiyaZinc's cost forecasts in its Business Plan are reasonable.
- AMC believes that the capital costs included in ShalkiyaZinc's Business Plan are reasonable, provided that it is recognised that the mine expansion project development is at pre-feasibility study stage, and that costs have an accuracy of +/-25%.

9 CONCLUDING COMMENTS

As a result of its site visits and other investigations AMC can make the following comments

AMC has been impressed by the professionalism and technical expertise it has seen at ShalkiyaZinc's operations. The Company's strategy to expand the mine from its current 0.5 mtpy production rate to 3 mtpy commencing in year 2010 is correct as the orebody is at the high end of the scale for size by world standards and the low end of the scale for grade, and so the mine must become a large volume, low cost producer.

There are a number of factors that indicate that Shalkiya will be able to achieve this objective, including that

- it has a large well defined and understood resource that is amenable to efficient, highly productive mining methods
- the mine has access to a local low cost workforce
- a major proportion of the necessary infrastructure for the mine expansion project has already been installed and several years of ore production has been accessed by previous owners of the mine
- supplies of cheap electricity and water are readily available.

Balanced against this there are some risks to the expansion project and the success of ongoing operations that need to be addressed

- The expansion project is large with an expenditure of \$147m to be managed. Good project management skills and procedures need to be put in place to ensure the project is completed successfully
- Continuing technical studies should continue, leading to a feasibility study that will ensure that the best options are chosen for the future direction of the mining operations and to provide a sound base for the project management team to work from

- Metallurgical research work must be continued to improve the saleability of the zinc concentrates so that issues do not arise in times of plentiful concentrate supplies.

AMC believes that the expansion project objectives are realistic and achievable given sound management, and that its success will place the Shalkiya mining and ore processing operation on a sound economic footing for the foreseeable future.

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ANNEXURE A
QUALIFICATIONS AND EXPERIENCE OF CONSULTANTS

P J Reynolds*

Team Leader and Mining

MEP, University of Technology, Sydney (2002); BAppSc (Mining), University of Adelaide (1970); B Bus (Accounting), Charles Sturt University (1980); First Class Mine Managers' Certificates (NSW, Tas, Qld, WA); Member Australian Institute of Mining and Metallurgy, Member Canadian Institute of Mining, Associate Australian Society of Accountants

35 years experience in base metals, gold and industrial minerals mining industries in both technical and operational roles, including five years experience preparing expert technical reports.

Z Jakubiak*

Geology

MSc (Mineral Exploration), London University (1984); MSc (Geology), University of Wroclaw (1975); Fellow Institute of Materials, Minerals and Mining; Member Australasian Institute of Mining and Metallurgy; Chartered Engineer; Fellow and Chartered Geologist, Geological Society of London; European Engineer (Eur Eng); European Geologist (Eur Geol)

31 years experience in structural and economic metalliferous geology and mineral exploration. Experience in assessing stratiform deposits, including Pb-Zn deposits and in preparation of several CPRs and FSU and JORC compliant reserve and resources statements

R Wilkinson*

Ore Processing

BSc (Hons) (Chem Eng), University of Edinburgh (1969); Member Institute of Materials, Minerals and Mining; Chartered Engineer; Associate Member Institution of Chemical Engineers

35 years experience in the metal mining industry. Experienced in project management, operations management, research, project evaluation and environmental management.

A Chuck

Peer Review

BEng (Hons (mining). University of Melbourne (1983); BEcon, Murdoch University (1996); Member Australian Institute of Mining and Metallurgy

23 years experience across gold, base metals and coal in a variety of roles including 10 years in corporate management, planning, acquisitions and investment. Experienced in the preparation of technical expert's reports and valuations.

* denotes that the consultant participated in the site visits

ANNEXURE B
SCOPE OF WORK, EXCLUSIONS AND LIMITATIONS

SCOPE OF WORK

AMC Consultants (UK) Ltd (“AMC”) compiled the Competent Person Report (“CPR”) for LL ShalkiyaZinc Ltd’s (“ShalkiyaZinc”) proposed Initial Public Offering in accordance with Committee of European Securities Regulators guidelines and the ‘old’ Chapter 19 of the Listing Rules of the London Stock Exchange, as modified following discussions with the Offering Circular preparation team.

The following procedure was followed to complete the CPR

- Initial meetings were held in London with ShalkiyaZinc directors to gain an overview of the company’s operations. This also resulted in a decision to compile JORC compliant ore reserve and resource statements.
- Key members of the team travelled to Kazakhstan for discussions with key ShalkiyaZinc personnel and to visit the company’s Shalkiya and Kentau operations
- During the site visit relevant documents were inspected, translated where necessary and noted. Key documents included
 - The Business Plan
 - 2006 Budget
 - Historical operating and financial data
 - Descriptions and illustrations of operations
 - Technical Studies completed by consultants to the company, relating to the proposed expansion of the company’s production rate to 3mtpy.
- A technical review was carried out on the Shalkiya mining operation, including
 - Geology
 - Ore reserves
 - Mining methods
 - Ore transportation
 - Occupational Health and Safety
 - Mine Services
 - Expansion Plans to 1.5mtpy and 3mtpy
 - Management Capability
 - Environmental Impact
- A technical review was carried out on the Kentau processing plant, including
 - Transport of ore
 - Unloading and crushing of ore
 - Processing plant operation
 - Concentrate Handling
 - Tailings disposal
 - Occupational Health and Safety
 - Plant Services
 - Expansion Plans to 1.5mtpy
 - Management Capability
 - Environmental Impact
- A technical review was carried out on the proposal to construct a 3mtpy processing plant and tailings disposal facility at the Shalkiya minesite.

- The results of the technical reviews were used to form an opinion on the reasonableness of the company's Business Plan, and the value of the assets described in that plan.
- Subsequent meetings were held in London with ShalkiyaZinc directors to discuss and clarify the results of these technical audits.
- A draft of the CPR was submitted to ShalkiyaZinc for comment and correction of factual errors

EXCLUSIONS

AMC did not review corporate aspects of the company, nor legal aspects (licences etc), nor other liabilities of the company, but relied on the client to supply this information insofar as it was required to complete the CPR.

AMC did not assess taxation implications in Kazakhstan and deferred to the client or the clients financial adviser in this respect.

Matters relating to the above exclusions were progressed by others under the client's guidance and the results provided to AMC for compilation into the CPR.

LIMITATIONS

Evidence has been presented to AMC demonstrating that some of ShalkiyaZinc's assets are not material in relation to the valuation of the company's operations. AMC has accepted that evidence as presented.

In particular, AMC has accepted that the Talap Mine project and the Ogizmuiz Crushed Stone project are not material for reasons described in the body of the CPR. These assets have therefore been described in the report but have not been analysed or included in valuation calculations.

It should be noted that the proposal to expand the Shalkiya mining and ore processing operations to 1.5mtpy initially and then to 3mtpy has not been studied to feasibility study levels of detail. Studies to pre-feasibility study levels of accuracy (+-25%) have been completed on the proposal to expand production at Shalkiya and to build a 3mtpy ore processing plant and tailings disposal facility at Shalkiya.

ANNEXURE C
TALAP GEOLOGY

TALAP GEOLOGY

As at Shalkiya, Pb-Zn mineralisation is hosted by the Upper Fammenian carbonate formations. It occurs in three horizons of rhythmically banded dark grey dolomites, which form part of a wider dolomite sequence, 50 to 100m in thickness in the central part of the deposit and up to 250m in thickness at depth. The deposit is located on the north eastern limb of a N S striking syncline. The synclinal limb and the mineralisation therein dip W to SW at angles ranging from 10 to 50° in the southern part of the deposit and to 70 to 90° in the central and northern parts. The northern end of the syncline is truncated by an unconformity dipping 50 to 70° WSW.

The three mineralised horizons, called Upper, Middle and Lower, and several small low-grade lenses extend over a strike length of 2km. They have simple tabular forms with sharp contacts. The Pb-Zn mineralisation occurs within the matrix in breccias and in carbonaceous and pyritic-carbonaceous bands.

An oxidation zone with pronounced zinc depletion extends down to a depth of 55 to 60m in the northern part of the deposit and to depth of 90m in the south. The zinc migrated downwards forming a 5 to 15m thick zone of secondary sulphide enrichment below the base of oxidation with zinc grades 1.5 to 2 times higher than the grades in the primary zone below.

Table 1: Parameters of Talap Mineralised Zones

<u>Mineralised Zone</u>	<u>Strike Length</u>	<u>Width</u>	<u>Explored Depth</u>
	metres	metres	metres
Upper	2000	3 to 25 average 7.9	700
Middle	1800	0.5 to 9.3 average 5.1	250-450
Lower	700	0.5 - 9.5 average 7.6	120-220

The main metalliferous minerals are sphalerite, galena, pyrite, tennantite and enargite. Sphalerite and galena grains are in the order of hundredth parts of mm in size and form separate disseminations and intergrowths with one another and with host gangue minerals. Galena is commonly intergrown with pyrite. Silver occurs as an accessory in galena, tennantite and as microscopic inclusions in sphalerite. It was noted during process testwork that samples contained 0.1 to 0.3 g/t Au and this should be a consideration during detailed exploration of the deposit.

Table 2: Chemical Composition of Talap Primary Sulphide Mineralisation

<u>Mineralised Body</u>	<u>Content</u>					
	<u>Pb, %</u>	<u>Zn, %</u>	<u>Ag, g/t</u>	<u>Ge, g/t</u>	<u>Cd, %</u>	<u>Ba, %</u>
Upper	0.3 to 2.0	0.5 to 4.8	0.94	4.8	0.0004	
Middle	0.8 to 5.5	2.8 to 7.7	2.98	13.8	0.0100	1.94
Lower	1.8 to 4.3	4.0 to 7.6	2.59	7.1	0.0153	0.50

Balance Reserves at Talap were initially estimated on completion of the preliminary exploration using provisional criteria approved in December 1989, which were as follows:

- Cut-off grade of 2% Zn equivalent with 2.2% Zn equivalent in peripheral intercepts, where Zn equivalent grade was calculated from the formula $Zn+(Pb \times 0.5)$, ignoring contents below 0.3% Pb and 0.4% Zn.
- Minimum width of mineralisation of 3m, or the equivalent accumulation where high grade mineralisation was of a narrower width;
- Minimum block grade of 3.45% Zn equivalent;
- Maximum width of barren and below cut-off mineralisation of 5m.

The C₁ reserve category down to the +10m level (400m vertical depth) was estimated at 15.3 mt at 2.1% Pb and 3.9% Zn. The C₂ resource was estimated at 2.5 mt at 1.9% Pb and 3.7% Zn with an additional 3.3 mt at 1.5%Pb and 3.2% Zn below the +10m level.

The reserves were re-estimated under the Kazakh classification system in 2006 and have been approved by the State Reserves Committee of the Republic of Kazakhstan (No. 515-06-K dated 15.06.2006). The following parameters were used:

A. Balance Reserves

- Cut-off grade of zinc equivalent: 3.0%;
- Formula for calculating zinc equivalent grade: $Zn + (Pb \times 0.5)$
- Minimum content to be recognised for conversion to zinc equivalent: Zinc 0.46%
Lead 0.30%
- minimal width of mineralisation of 1m, or the equivalent accumulation where high grade mineralisation was of narrower width
- maximum width of barren rock and below cutoff mineralisation: 3.0 m

B. Off Balance Reserves

- Cut-off grade of zinc equivalent: 2.0%

The rest of the parameters were the same as for Balance Reserves.

Table 3: Talap Reserves Using the Kazakh Classification System

Table 3 shows Talap deposit reserves estimated according to the above conditions:

	<u>Reserve Category</u>	<u>Quantity</u> thousand tons	<u>Contained Metal</u>		<u>Grade</u>	
			<u>lead</u> thousand tons	<u>zinc</u> thousand tons	<u>Lead%</u>	<u>Zinc%</u>
Balance Reserves	C ₁	7,557	186	361	2.46	4.78
	C ₂	3,583	76	163	2.13	4.55
	Total	11,140	262	525	2.35	4.71
Off Balance Reserves		5,329	49	113	0.92	2.14

ANNEXURE D
SHALKIYA 2004-06 RESERVE ESTIMATE
(Kazakh Classification System)

SHALKIYA 2004-2006 RESERVE ESTIMATE

These estimates were carried out according to the Kazakh classification system, based on the following conditions approved on 21 October 2005

- Sample cut-off grade for the delineation of balance reserves was 3% Zn eq, where Zn eq grade was calculated from the formula $Zn+(Pb \times 0.5)$, ignoring grades below 0.46% Zn and 0.30% Pb.
- Minimum width of mineralisation of 3m, or the equivalent accumulation where high grade mineralisation was of a narrower width;
- Maximum width of barren rock and below cut-off mineralisation included in the reserve was 5m;
- Cut-off grade for the delineation of off balance reserves was 1.4% Zn eq;
- Reserves of silver, cadmium and germanium were estimated within the balance and off balance blocks.

All estimates were performed by conventional methods using large polygonal blocks projected on the horizontal plane. Weighted arithmetic means were used at all stages of grade estimation.

Reserve blocks were defined within each mineralised structure strictly on the basis of sample composites over mineralised intercepts. Perimeters were either extrapolated beyond the last mineralised intercepts for a distance of 25m for the C_1 category and 50m for the C_2 category, or marked out by drawing lines midway between mineralised and barren drill hole trajectories if the distance between those was less than the extrapolation limits. This preserved the parameters of the intercept within the extrapolated extension. If the intercept was less than 3m in thickness, the perimeter was the intercept itself.

In faulted areas, reserve blocks were extended to the faults provided there were drill intercepts in the vicinity indicating that the host structure was present on both sides of the fault and the distance between the drill intercepts and the fault was less than 25m for the C_1 and less than 50m for the C_2 category.

The hinge zone of the syncline was divided into normal and overturned portions and these were treated as parts the corresponding limbs.

Reserves based on a drilling grid of 40m x 80m or less were classified in the B category, provided the estimate was based on a sufficient number of intercepts (minimum 12), the average core recovery exceeded 70% (this condition was adhered to in the South-Eastern section only) and continuity was well supported by geological and geophysical data. The B category reserve blocks are situated in the central part of the North-Western section and between profiles -15 and -17 in the South-Eastern section.

Reserve blocks classified in the C_1 category were generally delineated on 80x80m to 80x100m drilling grids in the North-Western section and on a 100x200m grid in the South-Eastern section. Most blocks contained more than 5 intersections.

The C_2 category reserve was situated mostly on the flanks of the deposit.

A summary of the 2006 reserves is shown in Table 1, divided into the North-Western and South Eastern sections of the mine.

Table 1: 2006 Kazakh Classification Shalkiya Reserves

<u>Reserve Category</u>	<u>Total for the Shalkiya Deposit</u>	<u>Including Reserves by Sections</u>	
		<u>North-Western Section</u>	<u>South-Eastern Section</u>
BALANCE RESERVES			
(3% Zn equivalent cut-off grade)			
Quantity, thousand tonnes	129,346	58,959	70,387
including: B	8,942	6,582	2,360
C1	105,824	44,253	61,571
B+C1	114,765	50,835	63,930
C2	14,581	8,124	6,457
Lead, thousand tonnes	1,657	665	993
including: B	133	92	41
C1	1,371	495	876
B+C1	1,503	587	917
C2	154	79	76
Lead grade, average	1.28%	1.13%	1.41%
including: B	1.48%	1.39%	1.73%
C1	1.30%	1.12%	1.42%
B+C1	1.31%	1.16%	1.43%
C2	1.06%	0.97%	1.18%
Zinc, thousand tonnes	5,528	2,571	2,957
including: B	384	286	98
C1	4,528	1,944	2,584
B+C1	4,912	2,230	2,682
C2	616	341	275
Zinc grade, average	4.28%	4.36%	4.20%
including: B	4.29%	4.35%	4.14%
C1	4.28%	4.39%	4.20%
B+C1	4.28%	4.39%	4.20%
C2	4.22%	4.19%	4.26%
Silver (C2), tonnes	432	212	221
Cadmium, tonnes	11,432	5,137	6,295
including: C1	10,189	4,458	5,731
C2	1,243	679	564
Germanium (C2), tonnes	994	467	527
OFF BALANCE RESERVES			
(1.4% Zn equivalent cut-off grade)			
Quantity, thousand tonnes	119,558	52,979	66,579
including:			
Lead, thousand tonnes	735	259	476
Zinc, thousand tonnes	3,259	1,357	1,902
Silver, tonnes	212	140	72
Cadmium, tonnes	5,535	1,821	3,714
Germanium, tonnes	434	278	157
Lead grade	0.61%	0.49%	0.72%
Zinc grade	2.73%	2.56%	2.86%

ANNEXURE E
REFERENCE DOCUMENTS

Ore Reserves Reports and Approvals

Protocol No 35 from the Meeting of the State Commission for Mineral Reserves at the Ministry of Geology and Mineral Wealth Protection of the Republic of Kazakhstan on 28.12.1995: Review of the Report, with Reserve Estimates, on Detailed Exploration of the Shalkiya Deposit as at 1.08.1994.

State Reserves Committee of the Republic of Kazakhstan, Minutes No. 351-04-U Estimation of Shalkiya Ore Reserves, December 7, 2004 (The Minutes No. 313-04-K dated June 2, 2004 of the State Reserves Committee on the Feasibility study of conditions of the North-Western section of the Shalkiya deposit).

State Reserves Committee of the Republic of Kazakhstan, Minutes No. 495-06-U Estimation of Shalkiya Ore Reserves, March 28, 2006 (The Minutes No. 452-05-K dated October 21, 2005 of the State Reserves Committee on the Feasibility study of conditions of the South-Eastern section of the Shalkiya deposit).

State Reserves Committee of the Republic of Kazakhstan, Minutes No 524-06-U Review of the Results of Talap Lead-Zinc Reserve Estimation, August 26, 2006.

Technical Reports

Ovchinnikov, V. V. et al, Geological Report on Detailed Exploration of the Shalkiya Deposit with Reserve Estimation as at August 1, 1979.

Giprotsvetmet Institute, Ore Mine Construction at the Shalkiya Deposit with Annual Capacity of 3 mln Tonnes, Moscow, Russia, 1980

Konirkulhaev, B.B et al, Report on Preliminary Exploration of the Talap Deposit for 1986-92. Ministry of Geology and Mineral Wealth protection of the Republic of Kazakhstan, Kentau, 1993.

Yuzhpolimetal, Pre-feasibility Study for Construction of a 1mtpa Concentrator at the Shalkiya Deposit, Kazakhstan, 1992

Hizhnyak, V.N. et al, Report with Reserve Estimate on Detailed Exploration of the Shalkiya Deposit as at August 1, 1994.

Kazmechanobr, Development of Business Plan and Feasibility Study of Investments for Processing of Ore of the Shalkiya Deposit, Subject I- 94-424 p.4, Almaty, Kazakhstan, 1995

Vniitsvetmet, Development, Industrial Testing and Introduction of Technology of Underground Development with Group Development and Mining of Contiguous Ore Bodies Under Conditions of the Shalkiya Deposit, Ust-Kamenogorsk, Kazakhstan, 2003

Vniitsvetmet, Development, Industrial Testing and Introduction of Technology of Processing of Lead and Zinc Ores of the Shalkiya Deposit, Ust-Kamenogorsk, Kazakhstan, 2003

LLP Geoincentr, Report with Reserve Estimation for North-Western Section of the Shalkiya Lead-Zinc Deposit as at 01.01.2004 (Kyzylorda Region), Almaty 2004.

Outokumpu Technology, Pre-Engineering Report for ShalkiyaZinc 3 mtpa mine and Concentrator, Finland, 2005

Independent Engineers, ShalkiyaZinc — Scoping Study, Australia, October 2005

LLP Geoincentr, Report with Reserve Estimation for the South-Eastern Section of the Shalkiya Lead-Zinc Deposit as at 01.01.2006, Almaty 2006.

LLP Geoincentr, Preliminary Geological-Economic Assessment (PGEO) of the Talap lead-Zinc Deposit (Kyzylorda Region), Almaty 2006.

Vniitsvetmet, Process Procedure for Engineering of a 3 mtpy Concentrator at the Shalkiya Mine, Ust-Kamenogorsk, Kazakhstan, 2006

Outokumpu Technology, Laboratory Testwork Report for Shalkiya Lead-zinc Ore, Finland, 2006

ShalkiyaZinc, Business Plan, Mining of Lead-Zinc Ores of the Shalkiya Deposit (3mln. Tons per year), Almaty, Kazakhstan, 2006

ANNEXURE F
DOCUMENTS REGULATING ENVIRONMENTAL IMPACT OF SHALKIYA AND KENTAU
OPERATIONS

Shalkiya Regulating Documents

Republic of Kazakhstan Special Water Use Permit No. 400128 of 01.07.2002 for Underground Waters Extraction in the Area of the Shalkiya Mine

Environmental Audit of the Shalkiya Mine, issued by the State Environmental Department, Document No. 03-03/1269 of 21.11.2002

Draft of the Maximum Permissible Discharge Standards of the Shalkiya Mine, issued by the State Environmental Department, Document No. 03-03/2482 of 26.08.2005

Ecological Certificate of the Shalkiya Mine, issued by the State Environmental Department, Document No. 03-03/2523 of 01.09.2005

Draft of the Maximum Permissible Discharge Standards of Pollutants in Waste Waters from the Shalkiya Mine Discharged into Storage Ponds, issued by the State Environmental Department, Document No. 02-03/3706 of 23.12.2005

Nature Management Permit for the Shalkiya mine for 2006 No. 0020090, series W-6 of 19.04.2006.

Republic of Kazakhstan Special Water Use Permit No. 6-3/1058 of 23.05.2006 for Underground Waters Extraction from Wells No. 2g, 6g, 6g-bis and 10g for process and potable water supply.

Permit No. 0020090, series W-6 for use of natural resources for the Shalkiya mine for 2006.

Kentau Regulating Documents

Nature Management Permit for the Kentau concentrator for 2006 No. 0016905, series X14-6 of 11.04.2006.

Draft of Maximum Permissible Atmospheric Emissions Standards for the Kentau Concentrator, issued by the State Environment Department, Document No. 05/2940 of 16.06.2005

Ecological Certificate of the Kentau Concentrator, issued by the State Environmental Department, Document No. 05/3074 of 28.06.2005

Permit No. 0016905, series X14-6 dated April 11, 2006 for use of natural resources for the Kentau concentrator for 2006.

ANNEXURE G
MINE CLOSURE COSTS SUMMARY

**Extract from the expert opinion
of Mr. M.N.Zamosch, environmental auditor**

3. EXPERT EVALUATION OF RECLAMATION COSTS

Types of the disturbed lands, subject for reclamation at the land allotment area of the Shalkiya deposit, and suitability of the disturbed lands for development, have been assumed in accordance with the most contiguous standard types of the disturbed lands with the specific consolidated standard costs (Tables 1-3). The total area of reclamation works is 255.7 ha. The area of disturbed lands does not include access roads, as well as other facilities that are not stated in the report of the Mining Institute named after D.A. Kunayev.

3.1. Results of estimates

The estimated cost of the technical stage of reclamation is 6.4 mln US dollars; 90% of this amount is allocated for reclamation of the tailings dam (Table 4).

The estimated cost of the biological stage of reclamation has been determined for the possible options of work implementation using as a basis for formation of the reclamation layer of potentially fertile suitable soils, soils of low suitability and unsuitable soils (Tables 5-7). In this respect the cost of the biological stage is within 0.5 — 2.7 mln US dollars. 90% of work cost in the cost structure is allocated for reclamation of the tailings dam.

The total cost of works depending on the conditions of implementation of the biological stage of reclamation is within 7 — 9 mln US dollars; the share of the technical stage of reclamation work is accordingly 91 — 70% of these costs (Table 8).

3.2. Accuracy and sensitivity analysis

The realistic design cost and actual cost of reclamation works during their implementation may differ from the obtained results by 15-20% downwards under the following conditions:

- performance of the work by the enterprise on its own without using services of contractors;
- use of the imported mining equipment with the higher capacity, than the capacity provided in normative standards and estimates of the Mining Institute named after D.A. Kunayev, at the technical stage of reclamation;
- use of modern equipment and technologies for the biological stage of reclamation, including hydraulic sowing, chemical soil amendments, adapted plant varieties.

The above stated factors are confirmed by the analysis of estimated normative and actual cost of numerous implemented reclamation projects.

3.3. Estimates precision analysis

Reclamation cost estimates on separate items show quite fine precision with the results of cost estimation for reclamation of the disturbed lands carried out by the Mining Institute named after D.A. Kunayev. For example, the cost of the tailings dam reclamation according to this expert evaluation during implementation of the biological stage using poor soils is 1,013, and according to the evaluation made by the Mining Institute named after D.A. Kunayev it makes 940 mln KZT (7% deviation).

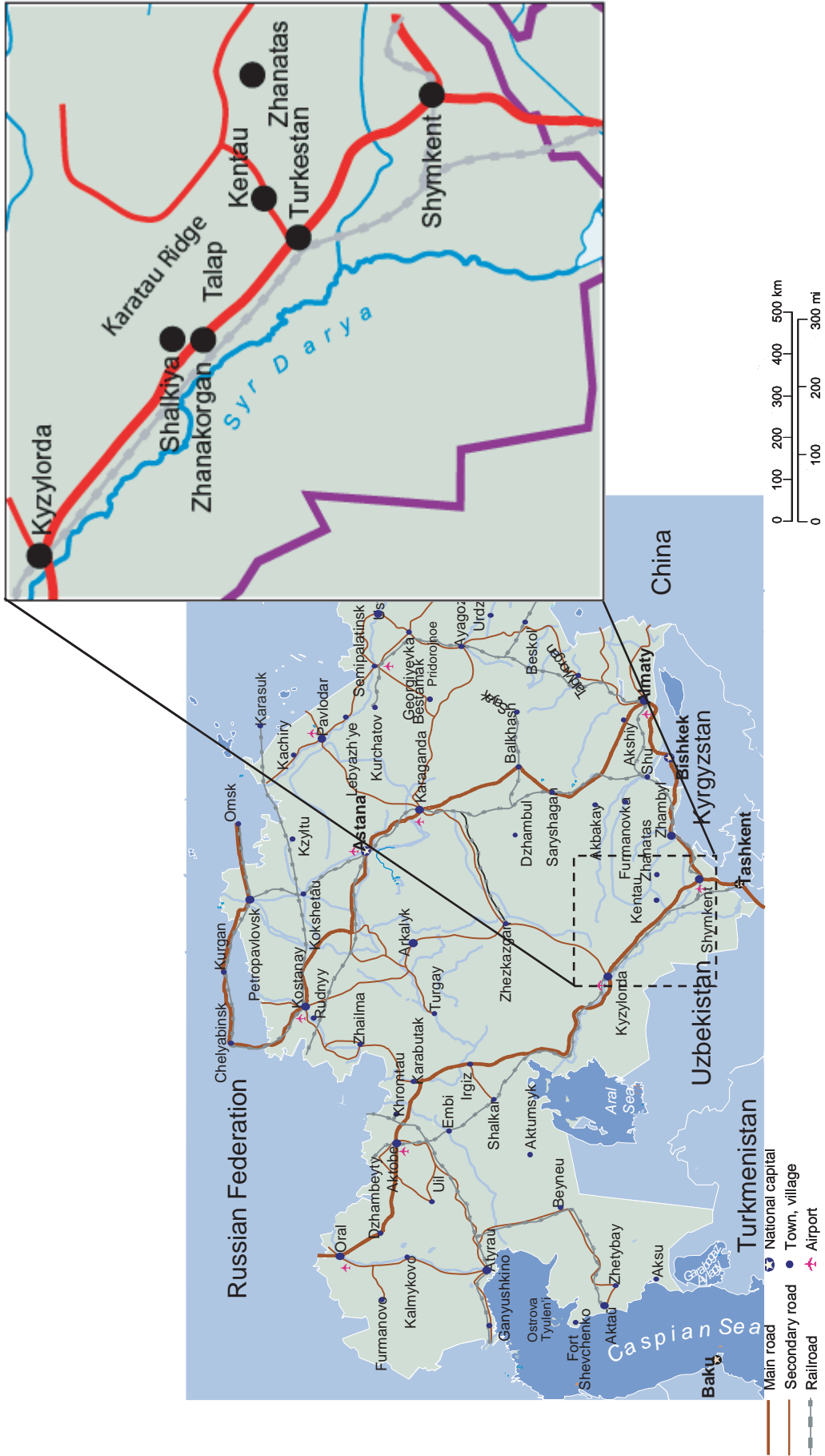


PLATE 1: Location of LL ShalkiyaZinc Ltd Mineral Assets

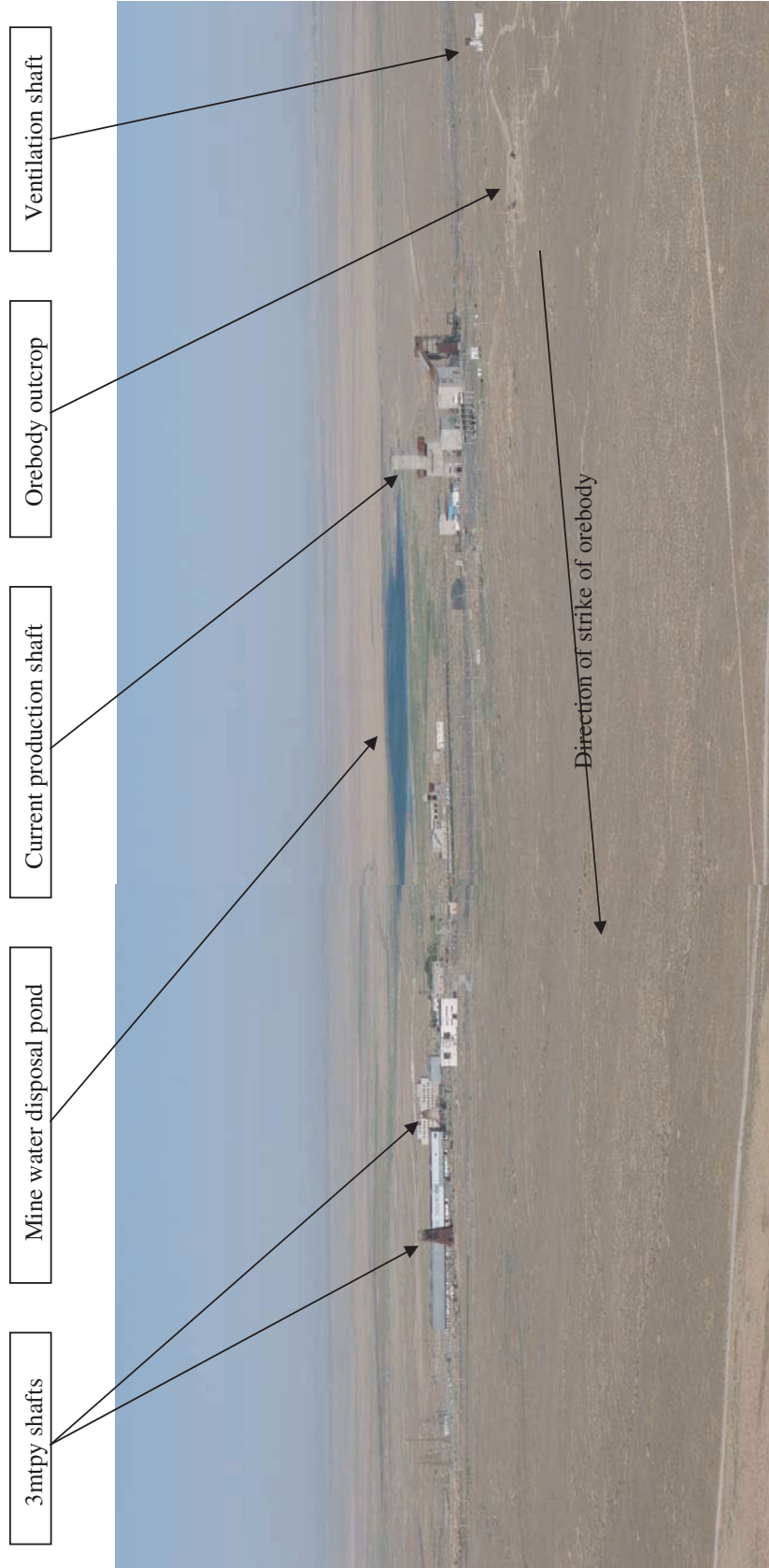


PLATE 2: Shalkiya Mine
Looking to the West

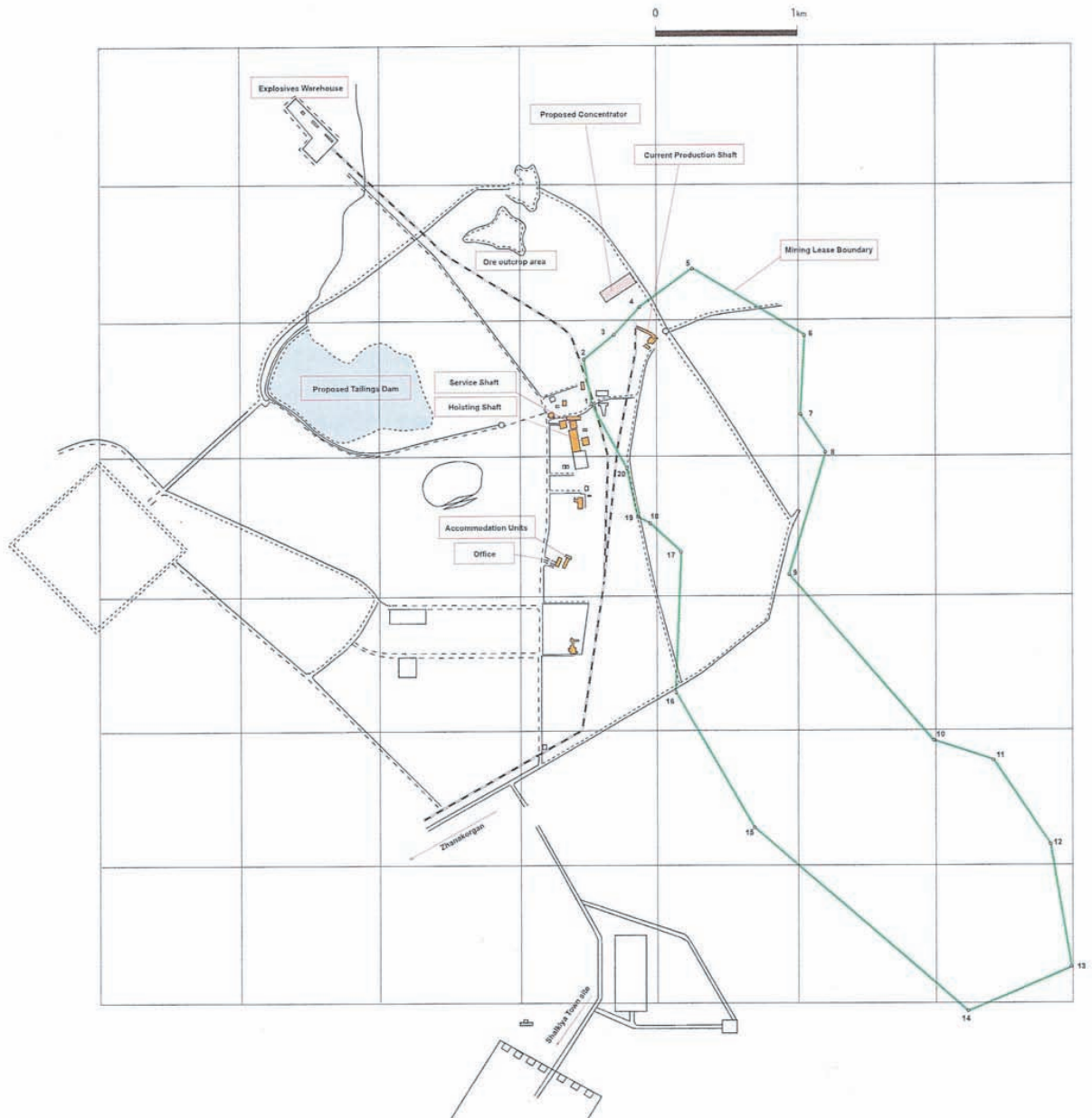
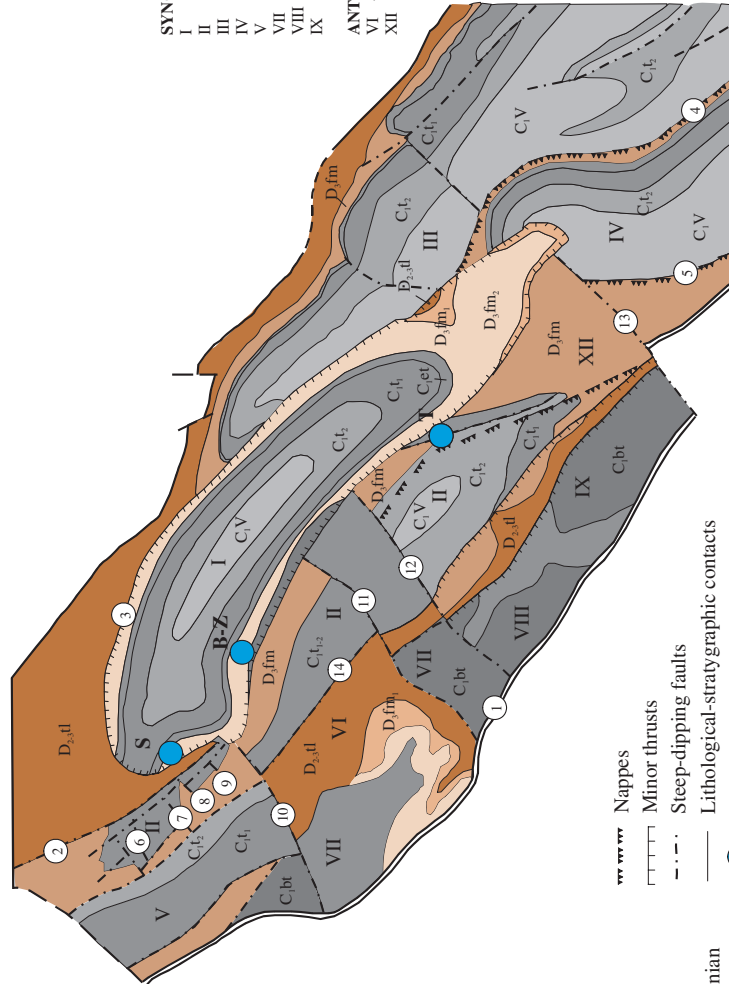


PLATE 3: Shalkiya Mine Site Surface Layout

Encl. SGeol-1. Schematic Geological Map of the Akuyuk-Maydantal Region



- SYNCLINES**
 I - Akuyuk
 II - Baktysay
 III - Maydantal
 IV - Dzhermansay
 V - Asarsyk
 VII - Yany-Kurgan
 VIII - Sorbulak
 IX - Kandykysay

- ANTICLINES**
 VI - Chukurey
 XII - Kemer

- LONGITUDINAL FAULTS**
 1 - Yany-Kurgan
 2 - Akuyuk

- THRUSTS**
 3 - Dzhermansay
 4 - Maydantal
 5 - Baktysay

- LOCAL FAULTS**
 6 - Shalkiya
 7 - Oguzmuyuskiy I
 8 - Oguzmuyuskiy II
 9 - Oguzmuyuskiy III
 10 - Asilbek
 11 - Sorbulak
 12 - Taktamyshtay I-II
 13 - Zhetuyubin
 14 - Besharyk

- C_V Viséan
- C_t Upper Tournaisian
- C_t Lower Tournaisian
- C_{bt} Strunian
- D₃fm₂ Upper Fammenian
- D₃fm₁ Lower Fammenian
- D₃fm₁ Undifferentiated Fammenian
- D₂tl Tiukubash Formation

- Nappes
- Minor thrusts
- Steep-dipping faults
- Lithological-stratigraphic contacts
- Pb-Zn deposits:
- S** Shalkiya
- B-Z** Burabay-Zhalgyzagash
- T** Talap

After V. N. Hizhnyak (1994) and Geoincentr (2004)

Plate 4: Shalkiya Mine Regional Setting

Encl. SGeol-2. Schematic Geological and Structural Map of the Shalkiya Deposit

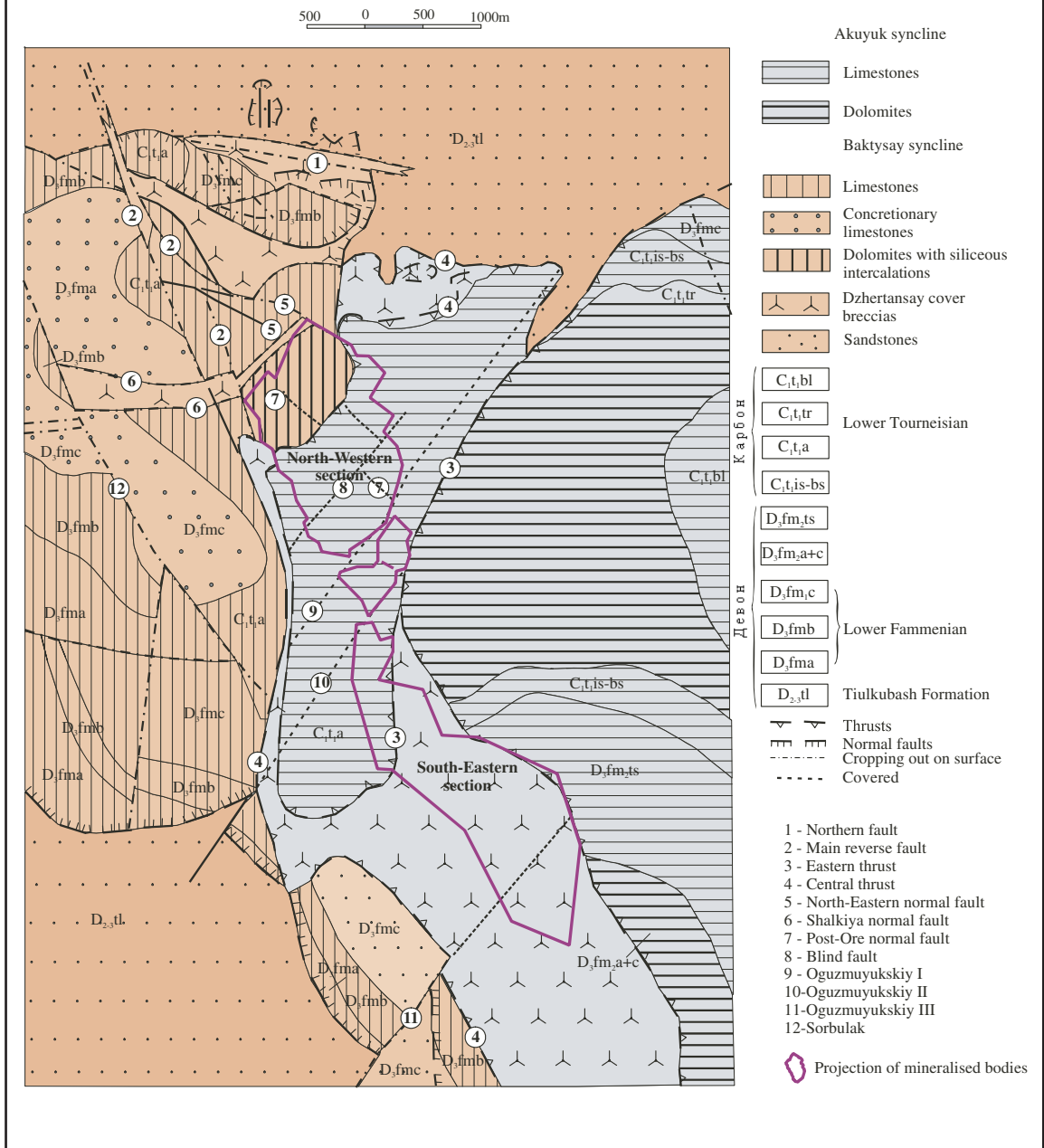
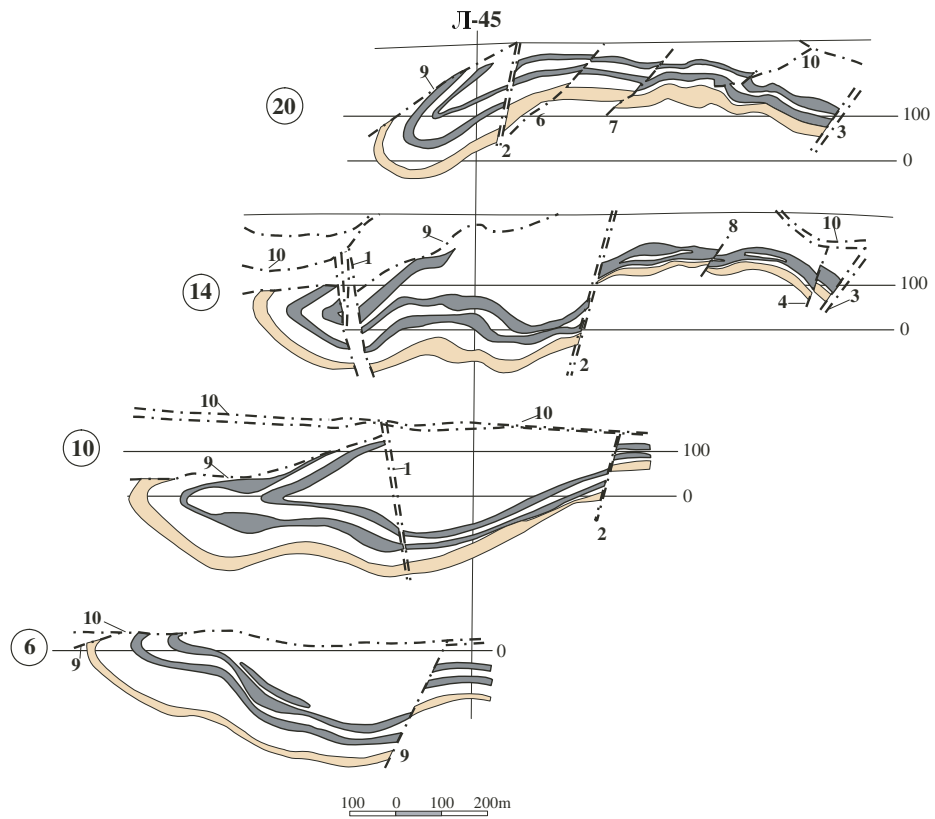





Plate 5: Shalkiya Orebody Structural Geology

Encl. SGeol-3. Coulisse Sections through the North-Western Section



-  Mineralised bodies
-  Pyritic rhythmities
-  Exploration lines


-  Faults:
- 1. Anohinskiy normal fault
- 2. Post-Ore normal fault
- 3. North-Eastern normal fault
- 4. Diagonal normal fault
- 5. Parallel normal fault
- 6. Reverse Fault No1
- 7. Reverse Fault No2
- 8. Reverse Fault No4
- 9. Unnamed thrust
- 10. Central thrust

Plate 7: Shalkiya Orebody Cross Sections



Plate 8: Shalkiya Orebody Banded Rhythmites

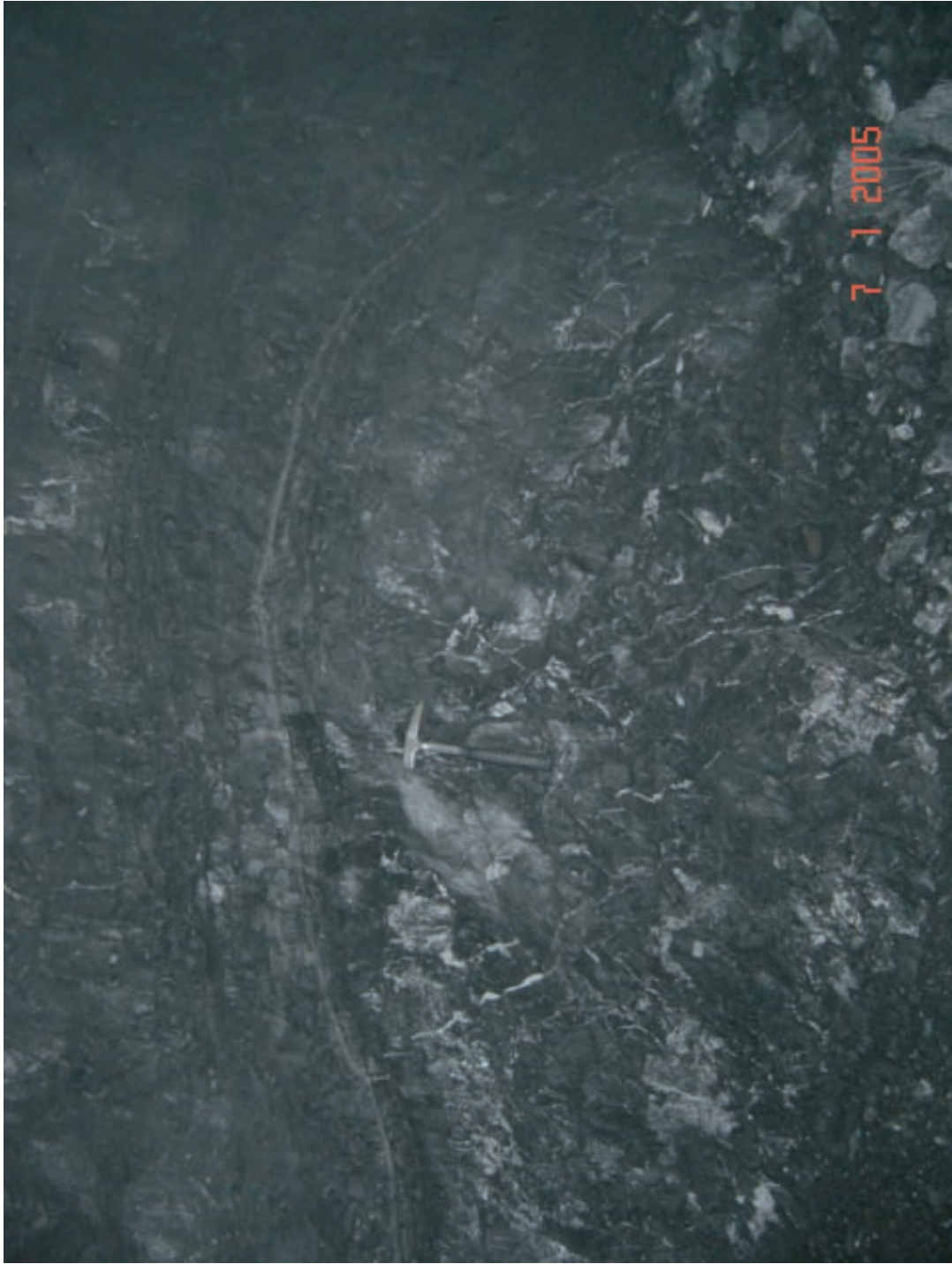


Plate 9: Small Scale Structural Variations in the Shalkiya Orebody

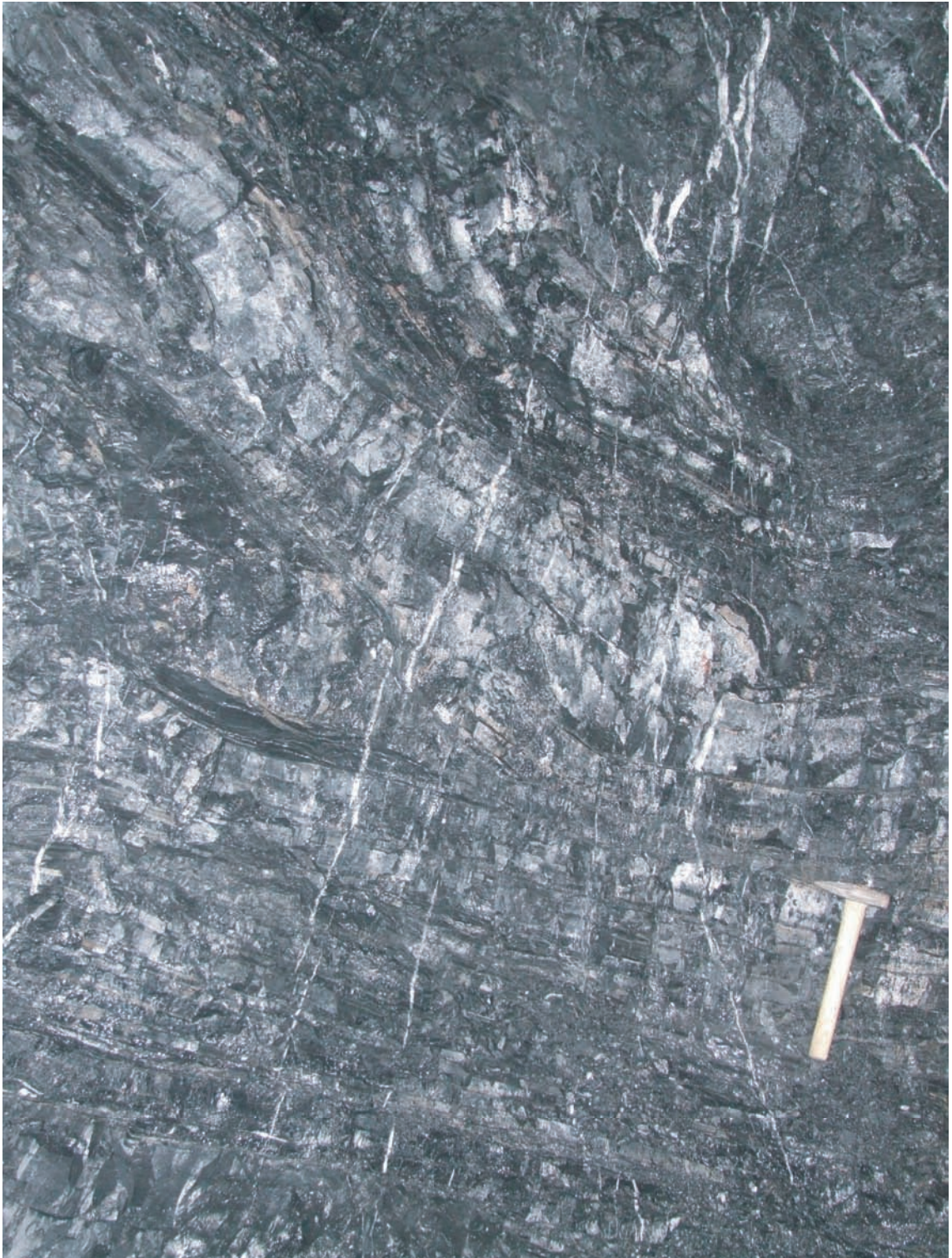
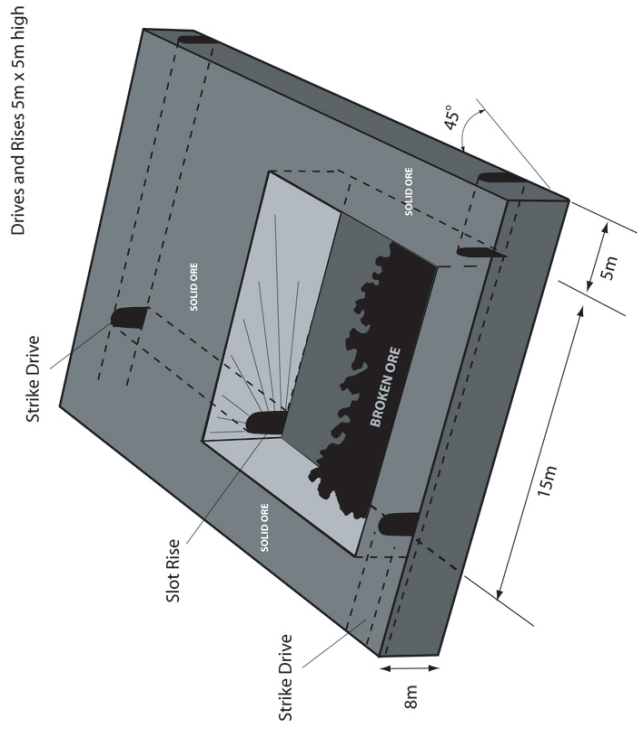
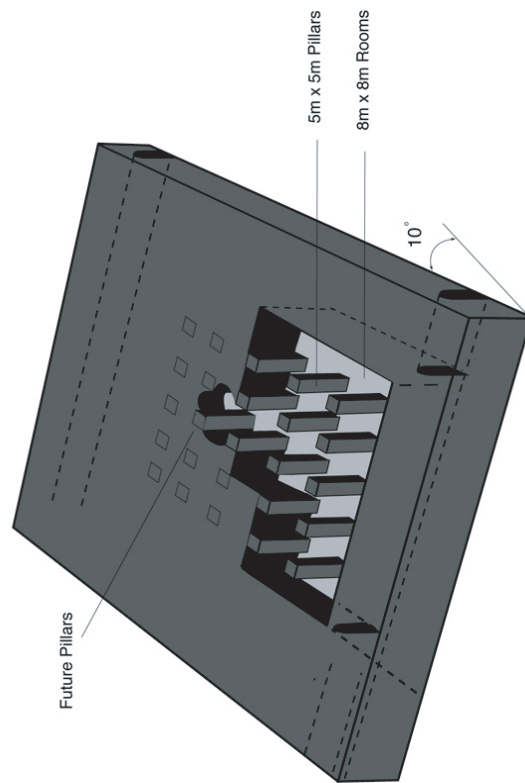


Plate 10: Small Scale Localised Folding in the Shajkiya Orebody



Slot Rise Open Stope Mining

PLATE 11: Shalkiya Mining Methods



Room and Pillar Mining

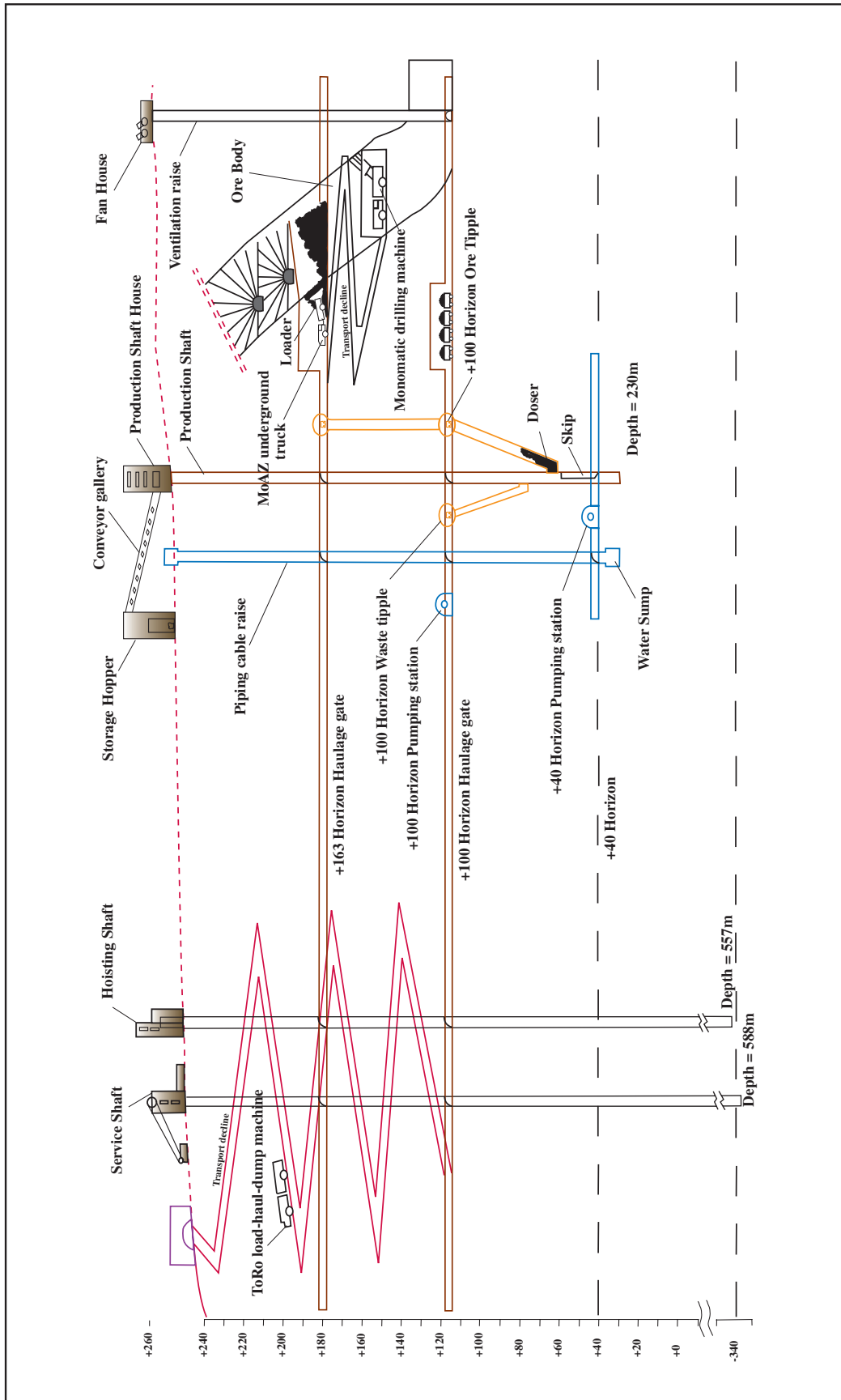


Plate 12: Shalkiya Mine Generalised Underground Infrastructure Arrangement

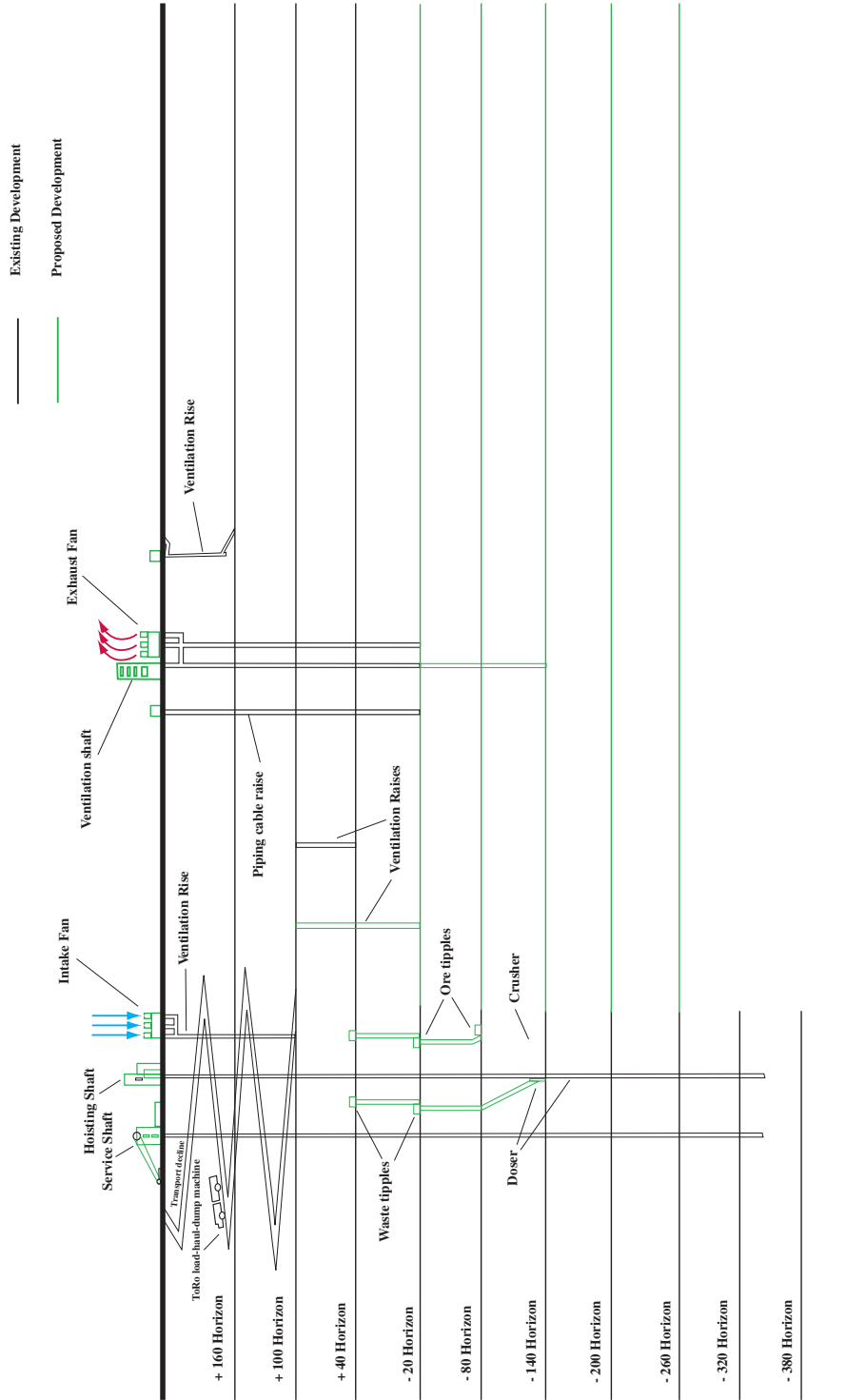


Plate 13: Infrastructure Installation for 3mtpy Production Rate and South Eastern Section Mining

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LLP SHALKIYA ZINC LTD
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

LLP SHALKIYA ZINC LTD
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

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	30 June 2006	30 June 2005	31 December 2005
EXCHANGE RATES — KAZAKHSTANI TENGE			
Period-end rates			
1 US Dollar	118.69	135.26	133.77
Average rates for the period			
1 US Dollar	127.10	131.20	132.86

LLP SHALKIYA ZINC LTD

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE
SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report on review of interim financial statements set out on page F-5, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated interim financial statements of LLP Shalkiya Zinc Ltd. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated interim financial statements that present fairly the financial position of the Group as at 30 June 2006, the results of its operations, cash flows and changes in partners' equity for the six months then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated interim 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 interim financial statements; and
- preparing the consolidated interim 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 interim financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated interim financial statements for the six months ended 30 June 2006 were approved by management and authorized for issue on 6 November 2006.

Sarkytbayev M.K.
General Director

Aznabakiyeva G.A.
Chief Accountant

Almaty, Republic of Kazakhstan

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Partners of LLP Shalkiya Zinc Ltd:

We have reviewed the accompanying consolidated interim balance sheet of the LLP Shalkiya Zinc Ltd. and its subsidiaries (the “Group”) as at 30 June 2006 and the related consolidated interim statements of income, changes in equity and cash flows and notes to the consolidated interim financial statements for the six month period then ended. Management is responsible for the preparation and presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards (“IFRS”). Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not prepared, in all material respects, in accordance with IFRS.

Emphasis of matter — negative financial results contained in the consolidated interim financial statements and significant uncertainty

Without qualifying our opinion, we draw attention to:

- note 2(a) to the consolidated interim financial statements, which indicates that the Group had an accumulated deficit of 2,996,686 thousand tenge as at 30 June 2006 (31 December 2005: 2,892,518 thousand tenge), a net loss of 103,499 thousand tenge for the six months ended 30 June 2006 (six months ended 30 June 2005: 652,278 thousand tenge), a net cash inflow from operating activities of 103,314 thousand tenge for the six months ended 30 June 2006 (six months ended 30 June 2005: a net cash outflow of 468,581 thousand tenge) and, as at 30 June 2006, the Group’s total liabilities exceeded its total assets by 2,994,344 thousand tenge (31 December 2005: 2,890,845 thousand tenge). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group’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, and
- note 2(b) to the consolidated interim financial statements, which indicates that the Group will require additional financing to advance the Group’s current capital expenditure projects and the repayment of its long-term borrowings. Whilst the Group has been successful in raising financing in the past, there can be no assurance that the Group will be able to continue to raise such additional financing as may be required. The Group intends to seek additional financing through the issuance of equity instruments.

The consolidated interim financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Almaty, Republic of Kazakhstan
6 November 2006

LLP SHALKIYA ZINC LTD
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	<u>Notes</u>	<u>Six months ended 30 June</u>	
		<u>2006</u>	<u>2005</u>
in KZT thousands			
Revenue	5	1,085,256	438,099
Cost of sales	6	<u>(829,229)</u>	<u>(577,871)</u>
Gross profit/(loss)		256,027	(139,772)
General and administrative expenses	8	(195,327)	(183,733)
Distribution costs	9	(29,822)	(24,876)
Other operating income, net		<u>950</u>	<u>—</u>
Operating profit/(loss)		31,828	(348,381)
Finance costs, net	10	(300,152)	(249,417)
Foreign exchange gain/(loss)		169,744	(50,442)
Other expenses, net		<u>(4,919)</u>	<u>(4,038)</u>
Loss before taxation		(103,499)	(652,278)
Taxation	11	<u>—</u>	<u>—</u>
Net loss for the period		<u>(103,499)</u>	<u>(652,278)</u>
Attributable to:			
Partners of the limited liability partnership		(104,168)	(653,228)
Minority interest		<u>669</u>	<u>950</u>
		<u>(103,499)</u>	<u>(652,278)</u>

LLP SHALKIYA ZINC LTD
CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006 (UNAUDITED)

	<u>Notes</u>	<u>30 June 2006</u>	<u>31 December 2005</u>
in KZT thousands			
Assets			
Non-current assets		2,597,925	2,630,872
Property, plant and equipment	12	2,091,567	2,148,464
Exploration costs	13	252,368	229,655
Long-term portion of VAT receivable	14	253,990	252,753
Current assets		5,279,129	4,975,342
Short-term portion of VAT receivable	14	325,381	239,551
Inventories	15	483,027	574,918
Trade accounts receivable		10,987	1,595
Other accounts receivable		21,717	5,117
Prepayments to suppliers	16	110,515	121,539
Short-term investments held-for-sale	17	4,253,900	4,003,800
Cash and cash equivalents	18	73,602	28,822
Total assets		<u>7,877,054</u>	<u>7,606,214</u>
Partners' Equity and Liabilities			
Partners' equity		(2,994,344)	(2,890,845)
Partners' capital	19	78	78
Accumulated deficit		(2,996,686)	(2,892,518)
Equity attributable to partners of the limited liability partnership ..		(2,996,608)	(2,892,440)
Minority interest		2,264	1,595
Non-current liabilities		6,543,339	6,171,437
Long-term borrowings	20	6,061,203	5,716,500
Provision for future site restoration	21	265,508	249,993
Due to the Republic of Kazakhstan	22	216,628	204,944
Current liabilities		4,328,059	4,325,622
Current portion of long-term borrowings	20	4,242,053	4,207,250
Trade accounts payable		24,973	32,564
Taxes payable	23	9,025	3,892
Advances received	24	15,064	69,584
Other current liabilities	25	36,944	12,332
Total partners' equity and liabilities		<u>7,877,054</u>	<u>7,606,214</u>

LLP SHALKIYA ZINC LTD
CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	Notes	Six months ended 30 June	
		2006	2005
in KZT thousands			
Operating activities			
Loss before taxation		(103,499)	(652,278)
Adjustments for:			
Amortization and depreciation expense	12	141,448	118,023
(Gain)/loss on disposal of property, plant and equipment		(11,989)	2,369
Finance costs	10	300,152	249,417
Foreign exchange (gain)/loss related to the revaluation of long-term borrowings	20	(166,008)	97,121
Operating loss/(gain) before working capital changes		<u>160,104</u>	<u>(185,348)</u>
(Increase)/decrease in trade accounts receivable		(9,392)	43,426
Increase in other accounts receivable		(16,600)	(10,386)
Increase in VAT receivable	14	(87,067)	(65,963)
Decrease/(increase) in inventories	15	91,891	(23,023)
Decrease/(increase) in prepayments to suppliers	16	11,024	(310,637)
Decrease in trade accounts payable		(7,591)	(14,960)
(Decrease)/increase in advances received		(54,520)	77,029
Increase in taxes payable (other than income tax)	23	5,133	442
Increase in other current liabilities	25	<u>24,612</u>	<u>21,110</u>
Net cash inflow/(outflow) from operations		117,594	(468,310)
Interest paid		<u>(14,280)</u>	<u>(271)</u>
Net cash inflow/(outflow) from operating activities		<u>103,314</u>	<u>(468,581)</u>
Investing activities			
Purchase of property, plant and equipment	12	(202,068)	(174,849)
Increase in exploration costs	13	(22,713)	(13,810)
Proceeds from disposal of property, plant and equipment		<u>129,506</u>	<u>—</u>
Net cash outflow from investing activities		<u>(95,275)</u>	<u>(188,659)</u>
Financing activities			
Proceeds from long-term borrowings	20	91,659	642,743
Principal payments on long-term borrowings	20	<u>(54,918)</u>	<u>(271)</u>
Net cash inflow from financing activities		<u>36,741</u>	<u>642,472</u>
Net increase/(decrease) in cash and cash equivalents		<u>44,780</u>	<u>(14,768)</u>
Cash and cash equivalents, beginning of the period	18	<u>28,822</u>	<u>69,440</u>
Cash and cash equivalents, end of the period	18	<u><u>73,602</u></u>	<u><u>54,672</u></u>

LLP SHALKIYA ZINC LTD
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

	<u>Notes</u>	<u>Partners' capital</u>	<u>Accumulated deficit</u>	<u>Minority interest</u>	<u>Total</u>
			in KZT thousands		
As at 31 December 2004		78	(1,557,208)	257	(1,556,873)
Net loss for the period		—	(653,228)	950	(652,278)
As at 30 June 2005		78	(2,210,436)	1,207	(2,209,151)
Net loss for the period		—	(682,082)	388	(681,694)
As at 31 December 2005	19	78	(2,892,518)	1,595	(2,890,845)
Net loss for the period		—	(104,168)	669	(103,499)
As at 30 June 2006	19	78	(2,996,686)	2,264	(2,994,344)

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED)

1. NATURE OF THE BUSINESS

LLP Shalkiya Zinc Ltd. (the “Partnership”) and its subsidiaries (the “Group”) was incorporated in April 2001 in Almaty, Republic of Kazakhstan. The Group’s activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Group on 31 May 2002 for the extraction of complex ore in the Shalkiya field for the period from 2002 to 2047. The Group’s main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda oblast of the Republic of Kazakhstan. The Group operates the Shalkiya mine and the Kentau concentrator. Main products are zinc and lead concentrates.

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

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

1st stage — 2001 – 2003:	Acquisition, repair and rehabilitation of the Group’s assets.
2nd stage — 2004 – 2006:	Commencement of production at the Kentau concentrator.

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

The number of employees of the Group as at 30 June 2006 was 718 (31 December 2005: 808). Total staff costs for the six months ended 30 June 2006 were 200,975 thousand tenge (the six months ended 30 June 2005: 173,880 thousand tenge).

The principal activities of the subsidiaries of the Partnership as at 30 June 2006 were as follows:

<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Year of formation</u>	<u>% share holding</u>
Geoinforminvest	Zinc exploration	Kazakhstan	2004	95%*
Shalkiya Stone Crushing Factory	Various	Kazakhstan	2005	100%

* The Partnership directly owns 95% of Geoinforminvest and the remaining 5% is owned by one of the partners, LLP Polymetall Resources (see note 32).

As at 30 June 2006, Geoinforminvest had total assets of 204,550 thousand tenge (31 December 2005: 201,181 thousand tenge), and incurred a net loss for the six months ended 30 June 2006 of 13,392 thousand tenge (six months ended 30 June 2005: 26,681 thousand tenge). In December 2004, Geoinforminvest entered into a Subsurface Use Contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field. The exploration period is 2 years and the extraction period is 18 years.

Shalkiya Stone Crushing Factory started production and sales in April 2006. It is a subsidiary of the Partnership with total assets as at June 30, 2006 of 241,000 thousand tenge (December 31, 2005: 77 thousand tenge) and incurred a net loss for the six months ended 30 June 2006 of 267 thousand tenge (six months ended 30 June 2005: nil).

2. BASIS OF PRESENTATION

The Group maintains its accounting records in local currency, i.e. the Kazakhstani tenge (“KZT” or “tenge”) under Kazakhstan Accounting Standards (“KAS”). KAS differ from IFRS. Accordingly, the accompanying consolidated interim financial statements, which have been prepared using the Group’s Kazakhstani statutory accounting records, reflect the adjustments necessary for such financial statements to be presented in accordance with IFRS.

The accompanying consolidated interim financial statements were prepared on the historical cost basis.

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

(a) Going concern

These consolidated interim financial statements were prepared on a going concern basis and there is no evidence that the Group is intending or in a position to terminate or significantly reduce its operations in the near future.

The Group operates as a natural resources exploration and processing entity. It has not earned significant revenues and since the start of its production at the end of March 2004 and the Group had an accumulated deficit of 2,996,686 thousand tenge as at 30 June 2006 (31 December 2005: 2,892,518 thousand tenge), a net loss of 103,499 thousand tenge for the six months ended 30 June 2006 (six months ended 30 June 2005: 652,278 thousand tenge), a net cash inflow from operating activities of 103,314 thousand tenge for the six months ended 30 June 2006 (six months ended 30 June 2005: a net cash outflow of 468,581 thousand tenge) and, as at 30 June 2006, the Group's total liabilities exceeded its total assets by 2,994,344 thousand tenge (31 December 2005: 2,890,845 thousand tenge). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group'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.

The Group engaged AMC Consultants (UK) Limited, an independent consulting mine engineering firm to perform an audit, estimation and classification of the Shalkiya deposit. An independent Competent Persons Report ("CPR") confirming the mineral content of the ore deposit, has been prepared and signed-off by AMC Consultants (UK) Limited. In this report the competent person estimated the mineral content, estimated the economically recoverable ore and classified the mineral deposit into resources (measured, indicated and inferred). A value-in-use valuation was performed by the competent person incorporating the Group's mine plans of 15 years, operating budgets and anticipated capital expenditure as well as future cashflows derived from the sale of finished products.

Management has prepared estimated future cashflows for the next 5 years, based on certain assumptions. The actual results for the nine months ended 30 September 2006, support the estimated future positive cashflows.

The existing partners have pledged their continued financial support until such time that the partnership's assets fairly valued exceed the liabilities.

The repayment terms of the long-term borrowings have been successfully renegotiated and extended (see notes 20 and 32).

(b) Significant uncertainty

The Group will require additional financing to advance the Group's current capital expenditure projects and to fund the repayment of its long-term borrowings. Whilst the Group has been successful in raising financing in the past, there can be no assurance that the Group will be able to raise such additional financing as may be required.

The Group intends to seek additional financing through the issuance of equity instruments.

The consolidated interim financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that may result from the outcome of this uncertainty.

(c) Measurement and presentation currency

The measurement and presentation currency of these consolidated interim financial statements is the Kazakhstani tenge.

(d) Reclassifications

Certain reclassifications have been made to the consolidated interim financial statements as at 31 December 2005 and for the six months ended 30 June 2005, to conform to the presentation as at 30 June 2006 and for the six months then ended, as current period presentation provides a better view of the consolidated interim financial statements.

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Partnership. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

(b) Property, plant and equipment

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

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

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

Upon commencement of production, exploration and development costs are amortized over the life of the mine, which is estimated at a maximum of 25 years.

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

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

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

(c) Exploration costs

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

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

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.

(e) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell or value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

(f) Inventories

Finished goods — Finished goods are measured at the lower of net production costs or net realizable value per unit.

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

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

(g) Trade accounts receivable

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

(h) Other accounts receivable

Other accounts receivable comprises assets with an expected maturity up to one year and are stated at their nominal value.

(i) Taxes recoverable and prepaid

Taxes recoverable and prepaid include taxes that are expected to be realized within one year and are stated at their nominal value.

(j) Cash and cash equivalents

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

(k) Short-term investments held-for sale

Short-term investments held-for-sale are initially measured at cost and are subsequently carried at fair value at the balance sheet date.

LLP SHALKIYA ZINC LTD

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)**

(l) Provisions

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

(m) Accounts payable

Accounts payable are stated at their nominal value.

(n) Long-term borrowings

Borrowing costs are recognized as an expense in the period in which they are incurred.

(o) Retirement and other employee benefit obligations

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

(p) Offset of financial assets and liabilities

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

(q) Leases

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

(r) Revenue recognition

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

(s) Royalty

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

(t) Taxation

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to offset the recognized amounts of current tax assets and current tax liabilities;

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- 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.

(u) Contingencies

Contingent liabilities are not recognized in the consolidated interim 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 interim financial statements but disclosed when an inflow of economic benefits is probable.

(v) Foreign currency translation

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

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical judgments in applying the entity's accounting policies

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

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

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

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

Contingencies — By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events (see note 29).

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	Six months ended 30 June	
	<u>2006</u>	<u>2005</u>
	in KZT thousands	
5. REVENUE		
Revenue from sales of zinc concentrate	1,003,705	379,043
Revenue from sales of lead concentrate	66,933	59,056
Revenue from sales of crushed stones	14,618	—
Total	<u>1,085,256</u>	<u>438,099</u>
6. COST OF SALES		
On-mine and concentrating costs (see note 7)	547,374	349,532
Ore transportation expenses	104,987	102,580
Other expenses (including royalty)	23,129	9,689
Cash operating cost	675,490	461,801
Amortization and depreciation of operating assets (see note 12)	136,211	113,483
Total cost of production	811,701	575,284
Change in finished goods (see note 15)	17,528	2,587
Total	<u>829,229</u>	<u>577,871</u>
7. ON-MINE AND CONCENTRATING COSTS		
Consumables and spares	249,027	108,606
Labour	133,598	102,488
Power and other utility costs	109,596	77,532
Maintenance of property, plant and equipment	29,141	43,102
Third party services	26,012	17,804
Total (see note 6)	<u>547,374</u>	<u>349,532</u>
8. GENERAL AND ADMINISTRATIVE EXPENSES		
Payroll and salary taxes	67,377	71,392
Consulting services	35,262	4,571
Taxes	29,161	30,470
Rent	8,561	10,512
Business trip expenses	8,074	8,873
Communication	6,774	6,206
Depreciation expense (see note 12)	5,237	4,540
Materials	3,987	3,622
Bank charges	3,449	7,015
Insurance	2,855	16,897
Maintenance costs	802	2,175
Other	23,788	17,460
Total	<u>195,327</u>	<u>183,733</u>

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	Six months ended 30 June	
	2006	2005
	in KZT thousands	
9. DISTRIBUTION COSTS		
Railway services	23,467	19,173
Packaging expenses	3,264	3,803
Other	3,091	1,900
Total	29,822	24,876
10. FINANCE COSTS, NET		
Interest expense related to long-term borrowings (see note 20)	523,053	221,981
Interest income related to short-term investments held-for sale (see note 17)	(250,100)	—
Unwinding of discount (see note 21)	15,515	13,878
Unwinding of discount (see note 22)	11,684	13,558
Total	300,152	249,417
11. TAXATION		
Income tax expense can be reconciled to the loss per the consolidated income statement as follows:		
Loss before taxation	(103,499)	(652,278)
Tax benefit at the statutory tax rate of 30%	(31,050)	(195,683)
Tax effect of permanent differences	18,305	10,068
Change in unrecognized net deferred tax position	12,745	185,615
Income tax expense	—	—

The Group has unused tax losses, available for carry forward against future taxable income, that will expire annually starting from 2008 to 2011, if not utilized against future taxable income (see note 26).

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine development costs	Buildings and construction	Machinery and production equipment in KZT thousands	Vehicles	Other	Construction-in-progress (CIP)	Total
Cost								
As at 31 December 2004	5,462	384,287	531,360	987,788	34,643	52,892	72,267	2,068,699
Additions	316	6,902	31,707	323,814	6,928	17,294	177,280	564,241
Transfers from CIP	—	—	49,438	19,734	—	1,894	(71,066)	—
Disposals	—	—	—	—	(3,393)	(290)	(1,583)	(5,266)
As at 31 December 2005	5,778	391,189	612,505	1,331,336	38,178	71,790	176,898	2,627,674
Additions	—	7,780	3,679	51,369	9,050	7,544	122,646	202,068
Transfers from CIP	—	—	3,197	160,434	—	9,167	(172,798)	—
Disposals	—	—	(11,326)	(38,069)	(826)	(13,487)	(55,825)	(119,533)
As at 30 June 2006	5,778	398,969	608,055	1,505,070	46,402	75,014	70,921	2,710,209
Accumulated amortization and depreciation								
As at 31 December 2004	—	(10,410)	(51,201)	(154,153)	(5,051)	(5,690)	—	(226,505)
Amortization and depreciation charge	—	(12,435)	(48,044)	(182,575)	(4,076)	(6,085)	—	(253,215)
Disposals	—	—	—	—	487	23	—	510
As at 31 December 2005	—	(22,845)	(99,245)	(336,728)	(8,640)	(11,752)	—	(479,210)
Amortization and depreciation charge	—	(6,588)	(21,946)	(104,635)	(2,294)	(5,985)	—	(141,448)
Disposals	—	—	366	964	—	686	—	2,016
As at 30 June 2006	—	(29,433)	(120,825)	(440,399)	(10,934)	(17,051)	—	(618,642)
Net book value								
As at 31 December 2005	5,778	368,344	513,260	994,608	29,538	60,038	176,898	2,148,464
As at 30 June 2006	5,778	369,536	487,230	1,064,671	35,468	57,963	70,921	2,091,567

Property, plant and equipment with a net carrying value of 1,595,702 thousand tenge and 1,148,604 thousand tenge, as at 30 June 2006 and at 31 December 2005 respectively, has been pledged to secure long-term borrowings (see note 20).

	30 June 2006	31 December 2005
	in KZT thousands	

13. EXPLORATION COSTS

Balance at the beginning of the period	229,655	200,062
Additions	22,713	29,593
Balance at the end of the period	252,368	229,655

14. VAT RECEIVABLE

Long-term portion of VAT receivable	253,990	252,753
Short-term portion of VAT receivable	325,381	239,551
Total	579,371	492,304

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	30 June 2006	31 December 2005
	in KZT thousands	
15. INVENTORIES		
Finished goods	70,573	88,101
Work-in-process	43,517	82,664
Stores and materials	368,937	404,153
Total	<u>483,027</u>	<u>574,918</u>

16. PREPAYMENTS TO SUPPLIERS

Prepayments for services	37,904	71,253
Prepayments for goods and materials	61,154	33,542
Other prepayments	11,457	16,744
Total	<u>110,515</u>	<u>121,539</u>

17. SHORT-TERM INVESTMENTS HELD-FOR-SALE

Bonds	4,003,800	4,003,800
Accrued interest (see note 10)	250,100	—
Total	<u>4,253,900</u>	<u>4,003,800</u>

<u>Security</u>	<u>Maturity date</u>	<u>Number of bonds</u>	<u>Face value</u>	<u>Coupon rate</u>
Rabobank Nederland bonds	3 Aug, 2006	7,605,000	801,520	14.50%
Rabobank Nederland bonds	9 Aug 2007	7,592,000	801,495	13.25%
Komunalbank bonds	2 Aug, 2006	7,595,000	803,023	14.50%
Defta Bank plc bonds	14 Nov, 2006	7,876,000	799,467	14.25%
Republic of Austria Intl bonds	14 Dec, 2006	8,269,000	798,511	10.00%
Total			<u>4,004,016</u>	

The bonds were pledged to Bank TuranAlem as a security for long-term borrowings of 4,003,800 thousand tenge (see note 20).

The Group estimates that the carrying amount of short-term investments held-for-sale approximates fair value (see notes 31 and 32).

18. CASH AND CASH EQUIVALENTS

Cash in banks	61,652	23,486
Cash in special deposits*	4,642	1,972
Cash on hand	7,308	3,364
Total	<u>73,602</u>	<u>28,822</u>

* Pursuant to the Subsurface Use Contract the Group is obliged to accumulate cash to meet provision for future site restoration related to obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage (see note 21).

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		<u>30 June 2006</u>	<u>31 December 2005</u>
		in KZT thousands	
19. PARTNERS' CAPITAL			
Denmar Asset Management Inc. BVI	54%	42	42
LLP Polymetall Resources	36%	28	28
LLP AgroNeft	10%	8	8
Total	100%	78	78

20. LONG-TERM BORROWINGS

KZT denominated borrowings due to Bank TuranAlem

Balance at the beginning of the period	8,456,398	3,052,100
Borrowings granted during the period	90,000	5,013,718
Interest charged for the period	465,423	390,850
	9,011,821	8,456,668
Less: amount repaid	—	270
Balance at the end of the period	9,011,821	8,456,398
Less: current portion shown under current liabilities	4,242,053	4,138,052
Long-term portion	4,769,768	4,318,346

The KZT denominated borrowings are secured by a charge over the Group's property, plant and equipment and investments in securities (see notes 12 and 17) and bear interest at a rate of 12% per annum. In August 2006, the Group made repayments of pre-existing loan principal commitments and interest following the realization of the short term investments held-for-sale (see note 32). The remainder of the borrowings are payable in monthly installments commencing 1 January 2009 and mature on 30 December 2013, as follows:

Within one year	4,242,053	4,138,052
In the second year	—	—
In the third year	—	—
In the fourth year	1,402,928	1,402,928
In the fifth year	714,782	714,782
After five years	2,652,058	2,200,636
	9,011,821	8,456,398

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	30 June 2006	31 December 2005
	in KZT thousands	
USD denominated borrowings due to Bank TuranAlem		
Balance at the beginning of the period	1,467,352	1,209,252
Borrowings granted during the period	1,659	283,730
Interest charged for the period	57,630	138,719
Foreign exchange (gain) / loss	(166,008)	41,096
	1,360,633	1,672,797
Less amount repaid	69,198	205,445
Balance at the end of the period	1,291,435	1,467,352
Less: current portion shown under current liabilities	—	69,198
Long-term portion	1,291,435	1,398,154

The USD denominated borrowings are secured by a charge over the Group's property, plant and equipment and investments in securities (see notes 12 and 17) and bear interest at rates ranging from 12% per annum to LIBOR plus 8%. These borrowings have maturity dates ranging from 1 November 2011 to 30 December 2013 as follows:

Within one year	—	69,198
In the second year	—	—
In the third year	—	—
In the fourth year	—	—
In the fifth year	—	—
After five years	1,291,435	1,398,154
	1,291,435	1,467,352

Summary of borrowings

Total borrowings	10,303,256	9,923,750
Less: current portion shown under current liabilities	4,242,053	4,207,250
Long-term portion	6,061,203	5,716,500

21. PROVISION FOR FUTURE SITE RESTORATION

Balance at the beginning of the period	249,993	222,237
Unwinding of discount (at 12%) (see note 10)	15,515	27,756
Balance at the end of the period	265,508	249,993
Restricted cash on special deposit	(4,642)	(1,972)
Unfunded portion of the provision	260,866	248,021

The provision for future site restoration relates to the contractual obligations contained in the Subsurface Use Contracts to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage. Primarily all 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 22,936,000 thousand tenge (or 1,180,000 thousand tenge in 2005 prices);
- The expected timing of the majority of the future cash expenditure is expected to take place at the end of the Shalkiya Subsurface Use Contract in 2047;

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- The inflation rate is 8% per annum;
- The discount rate applied is 12% per annum.

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

	30 June 2006	31 December 2005
	in KZT thousands	
22. DUE TO THE REPUBLIC OF KAZAKHSTAN		
Balance at the beginning of the period	204,944	177,829
Unwinding of discount at 12% (see note 10)	11,684	27,115
Balance at the end of the period	216,628	204,944

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

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

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

23. TAXES PAYABLE

Social tax payable	4,089	240
Withholding income tax payable	1,678	3,226
Other taxes payable	3,258	426
Total	9,025	3,892

24. ADVANCES RECEIVED

Advances received for inventories	14,799	69,469
Advances received for services	265	115
Total	15,064	69,584

25. OTHER CURRENT LIABILITIES

Payroll payable	20,348	2,136
Rent payable	3,265	3,317
Pension fund payable	3,216	1,783
Other payables	10,115	5,096
Total	36,944	12,332

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	30 June 2006	31 December 2005
	in KZT thousands	
26. DEFERRED TAXATION		
Deferred tax assets arising from:		
Capitalized costs	58,662	36,826
Tax losses available for carry forward	765,725	734,675
Total deferred tax assets	824,387	771,501
Deferred tax liabilities arising from:		
Differences in carrying values of property, plant and equipment	(121,214)	(81,073)
Total deferred tax liabilities	(121,214)	(81,073)
Net deferred tax position	703,173	690,428
Accumulated unrecognized deferred tax asset (see note 11)	(703,173)	(690,428)
	—	—

The Group has not recognized deferred tax assets related to Kazakhstani tax losses available for carry forward. Management believes that the amount and timing of realizing these potential benefits is not reasonably determinable (see note 11).

27. RELATED PARTIES AND PARTIES WITH SIGNIFICANT INFLUENCE ON THE GROUP'S OPERATIONS

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

Included in other accounts receivable as at 30 June 2006 is an amount due from the General Director of 14,850 thousand tenge (31 December 2005: 1,568 thousand tenge).

The total number of key management personnel as at 30 June 2006 is 5 persons (31 December 2005: 5). The total compensation paid to key management personnel amounted to 25,870 thousand tenge and is included in general and administrative expenses in the interim consolidated income statement for the six months ended 30 June 2006 (six months ended 30 June 2005: 26,443 thousand tenge).

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

Related parties, as defined by IAS 24 “*Related Party Disclosures*”, are those counter parties of the Group that represent:

- enterprises, that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates — enterprises, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals (partners) owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- enterprises, in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major owners of the Group and enterprises that have a member of key management in common with the Group.

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During the period ended 30 June 2006 the Group had material transactions with Bank TuranAlem. As disclosed in note 20, the Group received long-term borrowing from Bank TuranAlem, of which the outstanding portion amounted to 8,791,150 thousand tenge as at 30 June 2006 (31 December 2005: 8,878,106 thousand tenge).

Interest on Bank TuranAlem borrowings of 523,052,000 tenge were accrued during the six months ended 30 June 2006 (six months ended 30 June 2005: 235,859 thousand tenge), whereas 1,512,106 thousand tenge is outstanding as at 30 June 2006 (31 December 2005: 1,045,644 thousand tenge) and which is included in long-term borrowings (see note 20).

The sudden suspension or elimination of business transactions with Bank TuranAlem could severely impact the operations of the Group.

28. PENSIONS AND RETIREMENT PLANS

In accordance with the law of the Republic of Kazakhstan “Pension provisioning in the Republic of Kazakhstan” effective from 1 January 1998 and replacing the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulations accounts fund provided by the compulsory pension contributions of 10% from an employees’ income with a maximum statutory limit on these contributions of approximately 69,000 tenge in the six months ended 30 June 2006 (six months ended 30 June 2005: 52,500 tenge).

During the six months ended 30 June 2006 compulsory pension contributions to the accumulated pension funds of 13,339 thousand tenge (six months ended 30 June 2005: 13,104 thousand tenge) were charged to the interim consolidated income statement.

As at 30 June 2006 the Group was not liable for any supplemental, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

Management has approved the following capital expenditure budgets in 2006 (*in KZT thousands*):

Maintenance of property, plant and equipment	104,860
Expansion of property, plant and equipment	<u>49,202</u>
Total	<u>154,062</u>

The 2006 budgeted capital expenditure is allocated between (*in KZT thousands*):

Contracted	140,507
Not contracted	<u>13,555</u>
Total	<u>154,062</u>

Contracted obligations in respect of capital commitments after 2006 amount to approximately 16,000 thousand tenge.

Operating leases

The Partnership leases a building through an operating lease agreement which expires in April 2007. Future minimum lease payments due under the non-cancelable operating lease agreement at 30 June 2006 are as follows (*in KZT thousands*):

Due in one year	<u>12,698</u>
Total	<u>12,698</u>

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Contractual liabilities

As at 30 June 2006, the Group had the following contractual obligations:

- Purchase of repair services by Asar LLP for 2,300 thousand tenge;
- Purchase of inventory from Inter-Marketing LLP for 8,900 thousand tenge;
- Purchase of inventory from Kazprom Kyzyl-Orda LLP for 6,700 thousand tenge;
- Sale of zinc concentrate to Cheriton Finance Limited for 996,996 thousand (USD 8,400 thousand);
- Sale of lead concentrate to Boertala Mongolian Autonomous for 137,000 thousand tenge (USD 1,154 thousand).

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 0.10% of operating costs.

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to finance the professional training of the Kazakhstani staff for not less than 1.00% of operating costs.

Liquidation fund

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

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

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

Insurance

The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in development markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations.

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's financial position or operating results.

Operating and regulatory environment

Although in recent years there has been a general improvement in economic conditions in the Republic of Kazakhstan, the country continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

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Republic of Kazakhstan Government pre-emption right

The Subsoil Law, as amended by the 2004-2005 Amendments, provides the Government with a pre-emption right to acquire subsoil use rights and participation interests in legal entities holding subsoil use rights and in any legal entity having direct or indirect control over a legal entity having subsoil use rights, if the core business of such controlling legal entity is related to subsoil use in Kazakhstan, upon transfer of such rights or interests. This pre-emption right permits the Government to purchase any such subsoil use rights and/or participation interests being offered for transfer on terms no less favourable than those offered by other purchasers. The relevant governmental authority has the right to terminate a subsoil use contract if a transaction takes place in breach of this law. These provisions apply both to Kazakhstan and overseas legal entities operating in Kazakhstan. It is unclear whether the right of pre-emption could be exercised in respect of disposals, which have occurred without notice to the relevant authority and whether, for instance, such prior transactions could be unwound.

The Government has exercised its pre-emption rights under the Subsoil Law in respect of other companies.

Taxation

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

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

30. RISK MANAGEMENT ACTIVITIES

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

Concentration of business risk

During the six months ended 30 June 2006, the Group's sources of revenue resulted mainly from sales of products to Cheriton Finance (UK) and Bozhou Alasahkou (China) — 92% (six months ended 30 June 2005: 72%) and 6% (six months ended 30 June 2005: 13%) of total sales, respectively. In addition, the only financing source of the Group is Bank TuranAlem. As such, the Group's assets and operations could be at risk due to negative changes in its relations with these entities.

Commodity price risk

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

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As at 30 June 2006, the Group believes that its maximum exposure to credit risk relates to its accounts receivable as reflected in their carrying value.

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

Currency risk

The Group incurs foreign currency risk on sales and loans that are denominated in a currency other than tenge. The currency giving rise to this risk is primarily the US dollar. The Group does not hedge its foreign currency risks.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In accordance with the Subsoil Use Contracts, the Group is obliged to carry medical insurance, insurance against accidents during production and occupational diseases for its employees.

As at 30 June 2006, the Group believes it had sufficient insurance policies in force in respect of public liability.

Interest rate risk

The Group has bank borrowings which are exposed to fluctuation in the LIBOR interest rate.

31. FINANCIAL INSTRUMENTS

Disclosure of estimated fair values of financial instruments is made in accordance with the requirements of IAS 32 "*Financial instruments: Disclosure and presentation*" and IAS 39 "*Financial Instruments: Recognition and Measurement*". Fair value is defined as the amount for which the instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a part of the Group financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As at 30 June 2006, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash

The carrying amount of cash balances represents their fair value.

Trade and other accounts receivable

The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trade and other accounts payable

The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

Short-term investments held-for-sale

The carrying amount of short-term investments held-for-sale is stated at fair value, with any resultant gain or loss recognized in the income statement.

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006 (UNAUDITED) — (Continued)

Short-term borrowings

For short-term borrowings, the carrying amount is a reasonable estimate of fair value.

Long-term borrowings

The carrying amount of long-term borrowings is considered a reasonable estimate of their fair value as the nominal interest rate on long-term borrowings is considered to be a reasonable approximation of the fair market interest rate with reference to loans with similar credit risk level and maturity period at the reporting date.

32. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In August and September 2006, the Group amended certain terms of its KZT and USD denominated loans with Bank TuranAlem totaling approximately 5,716,000 thousand tenge including deferring the maturity of:

- the KZT denominated tranche of the loans to up to 2013, with quarterly repayments beginning in 2009, and
- part of the US dollar denominated tranche of the loans to 2011 and 2013.

In August 2006, the Group disposed of short term investments held for sale (see note 17), previously used as security for its loans with Bank TuranAlem and used the proceeds of this disposal to repay 4,003,000 thousand tenge of the outstanding principal of the Bank TuranAlem loans (see note 20).

In August 2006, the Partnership acquired the remaining 5% interest in Geoinforminvest from one of its partners, LLP Polymetall Resources, for a total consideration of 7,800 thousand tenge.

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

On 6 November 2006, Denmar Asset Management Inc. BVI, LLP Polymetall Resources and LLP Agroneft sold their respective interests in the Partnership to Shalkiya Zinc N.V. Shalkiya Zinc N.V. became the sole partner of the Partnership on that date.

The ultimate beneficial shareholders became:

- Rifat Rizoyev (67%);
- Assylbek Abuov (15%);
- Marat Sarkytbayev and Samat Kazymov jointly (18%).

LLP SHALKIYA ZINC LTD
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

LLP SHALKIYA ZINC LTD
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

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	2005	2004	2003
EXCHANGE RATES — KAZAKHSTANI TENGE			
Year-end-rates	133.77	130.00	144.22
1 US Dollar			
Average rates for the year	132.86	136.05	149.50
1 US Dollar			

LLP SHALKIYA ZINC LTD

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE
YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of independent auditors' set out on pages F-32 – F-33, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated annual financial statements of LLP Shalkiya Zinc Ltd. and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated annual financial statements that present fairly the financial position of the Group as at 31 December 2005, 2004 and 2003 and the results of its operations, cash flows and changes in partners' equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated annual 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 annual financial statements; and
- preparing the consolidated annual 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 annual financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated annual financial statements for the years ended 31 December 2005, 2004 and 2003 were approved by management and authorized for issue on 6 November 2006.

Sarkytbayev M.K.
General Director

Almaty, Republic of Kazakhstan

Aznabakiyeva G.A.
Chief Accountant

REPORT OF THE INDEPENDENT AUDITORS

To the Partners of LLP Shalkiya Zinc Ltd:

We have audited the accompanying consolidated financial statements of LLP Shalkiya Zinc Ltd. and its subsidiaries (the “Group”), which comprise the balance sheets as at 31 December 2005, 2004 and 2003 and the consolidated income statements, changes in partners’ equity and cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory notes (hereinafter, the “consolidated annual financial statements”).

Management responsibility for the consolidated annual financial statements

Management is responsible for the preparation and fair presentation of the consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”). This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated annual financial statements that are free from material misstatements, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual financial statements. The procedures selected depend on the auditor’s judgment which includes:

- assessing the risks of material misstatement in the consolidated annual financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated annual 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;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as
- evaluating the overall presentation of the consolidated annual financial statements.

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

Qualification

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated annual financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the counting of the physical inventories as at 31 December 2004 and 2003, since those dates were prior to the time we were initially engaged as auditors of the Group. Owing to the nature of the Group’s records we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities as at 31 December 2004 and 2003, the consolidated annual financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005, 2004 and 2003 and its consolidated financial performance and its cash flows for the years then ended in accordance with IFRS.

Emphasis of matter — negative financial results contained in the consolidated annual financial statements and significant uncertainty

Without further qualifying our opinion, we draw attention to:

- note 2(a) to the consolidated annual financial statements, which indicates that the Group had an accumulated deficit of 2,892,518 thousand tenge as at 31 December 2005 (2004: 1,557,208 thousand tenge; 2003: 564,278 thousand tenge), a net loss of 1,333,972 thousand tenge for the year then ended (2004: 992,908 thousand tenge; 2003: 193,039 thousand tenge), a net cash outflow from operating activities of 583,914 thousand tenge for the year ended 31 December 2005 (2004: 1,180,434 thousand tenge; 2003: 388,631 thousand tenge) and, as at 31 December 2005, the Group's total liabilities exceeded its total assets by 2,890,845 thousand tenge (2004: 1,556,873 thousand tenge; 2003: 563,722 thousand tenge). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group'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; and
- note 2(b) to the consolidated annual financial statements, which indicates that the Group will require additional financing to advance the Group's current capital expenditure projects and the repayment of its long-term borrowings. Whilst the Group has been successful in raising financing in the past, there can be no assurance that the Group will be able to continue to raise such additional financing as may be required. The Group intends to seek additional financing through the issuance of equity instruments.

The consolidated annual financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Almaty, Republic of Kazakhstan
6 November 2006

LLP SHALKIYA ZINC LTD
CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
in KZT thousands				
Revenue	5	1,054,478	333,576	—
Cost of sales	6	<u>(1,301,747)</u>	<u>(639,107)</u>	—
Gross loss		(247,269)	(305,531)	—
General and administrative expenses	8	(411,192)	(388,639)	(165,716)
Distribution costs	9	(46,311)	(26,104)	—
Other operating expenses, net		<u>(2,506)</u>	<u>(860)</u>	<u>(288)</u>
Operating loss		(707,278)	(721,134)	(166,004)
Finance costs	10	(584,440)	(363,478)	(182,364)
Foreign exchange (loss)/gain		(32,899)	104,134	69,139
Other expenses, net		<u>(9,355)</u>	<u>(12,430)</u>	<u>86,190</u>
Loss before taxation		(1,333,972)	(992,908)	(193,039)
Taxation	11	—	—	—
Net loss for the year		<u>(1,333,972)</u>	<u>(992,908)</u>	<u>(193,039)</u>
Attributable to:				
Partners of the limited liability partnership		(1,335,310)	(992,930)	(193,075)
Minority interest		<u>1,338</u>	<u>22</u>	<u>36</u>
		<u>(1,333,972)</u>	<u>(992,908)</u>	<u>(193,039)</u>

LLP SHALKIYA ZINC LTD
CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2005, 2004 AND 2003

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
in KZT thousands				
Assets				
Non-current assets		2,630,872	2,173,968	1,849,723
Property, plant and equipment	12	2,148,464	1,842,194	1,615,525
Exploration costs	13	229,655	200,062	—
Long-term portion of VAT receivable	14	252,753	131,712	198,264
Prepayments for equipment		—	—	35,934
Current assets		4,975,342	1,020,001	229,575
Short-term portion of VAT receivable	14	239,551	214,180	—
Inventories	15	574,918	531,605	87,937
Trade accounts receivable		1,595	43,980	841
Other accounts receivable		5,117	5,460	4,213
Prepayments to suppliers	16	121,539	155,336	98,426
Short-term investments held-for-sale	17	4,003,800	—	—
Cash and cash equivalents	18	28,822	69,440	38,158
Total assets		<u>7,606,214</u>	<u>3,193,969</u>	<u>2,079,298</u>
Partners' Equity and Liabilities				
Partners' equity		(2,890,845)	(1,556,873)	(563,722)
Partners' capital	19	78	78	78
Accumulated deficit		(2,892,518)	(1,557,208)	(564,278)
Equity attributable to partners of the limited liability partnership		(2,892,440)	(1,557,130)	(564,200)
Minority interest		1,595	257	478
Non-current liabilities		6,171,437	4,455,703	2,621,038
Long-term borrowings	20	5,716,500	4,055,637	2,422,612
Provision for future site restoration	21	249,993	222,237	198,426
Due to the Republic of Kazakhstan	22	204,944	177,829	—
Current liabilities		4,325,622	295,139	21,982
Current portion of long-term borrowings	20	4,207,250	205,715	336
Trade accounts payable		32,564	44,542	9,277
Taxes payable	23	3,892	8,830	3,518
Advances received	24	69,584	30,012	—
Other current liabilities	25	12,332	6,040	8,851
Total partners' equity and liabilities		<u>7,606,214</u>	<u>3,193,969</u>	<u>2,079,298</u>

LLP SHALKIYA ZINC LTD
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	<u>Notes</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
		in KZT thousands		
Operating activities				
Loss before taxation		(1,333,972)	(992,908)	(193,039)
Adjustments for:				
Amortization and depreciation charge	12	253,215	190,769	26,714
Loss on disposal of property, plant and equipment		4,202	860	5,445
Finance costs	10	584,440	363,478	182,364
Foreign exchange loss/(gain) related to revaluation of long-term borrowings	20	41,096	(117,483)	(77,876)
Effect of change in interest rate	20	—	—	(92,131)
Operating loss before working capital changes		(451,019)	(555,284)	(148,523)
Decrease/(increase) in trade accounts receivable		42,385	(43,139)	(76)
Decrease/(increase) in other receivables		343	(1,247)	(34)
Increase in VAT receivable	14	(146,412)	(147,628)	(159,959)
Increase in inventories	15	(43,313)	(443,668)	(73,818)
Decrease/(increase) in prepayments to suppliers	16	33,797	(56,910)	(20,568)
Increase/(decrease) in trade accounts payable		(11,978)	35,265	7,664
(Decrease)/increase in taxes payable (other than income tax)	23	(4,938)	5,312	985
Increase in advances received	24	39,572	30,012	—
Increase/(decrease) in other current liabilities	25	6,292	(2,811)	5,698
Net cash outflow from operations		(535,271)	(1,180,098)	(388,631)
Interest paid	20	(48,643)	(336)	—
Net cash outflow from operating activities		(583,914)	(1,180,434)	(388,631)
Investing activities				
Purchase of property, plant and equipment	12	(564,241)	(418,445)	(1,060,247)
Increase in exploration costs	13	(29,593)	(22,233)	—
Increase in investments in securities	17	(4,003,800)	—	—
Decrease/(increase) in advances paid for long term assets		—	35,934	(35,934)
Change in ownership of subsidiary		—	(243)	—
Proceeds from disposal of property, plant and equipment		554	147	2,398
Net cash outflow from investing activities		(4,597,080)	(404,840)	(1,093,783)
Financing activities				
Proceeds from borrowings	20	5,297,448	1,616,556	1,419,270
Principal payments on borrowings	20	(157,072)	—	—
Net cash inflow from financing activities		5,140,376	1,616,556	1,419,270
Net (decrease)/increase in cash and cash equivalents		(40,618)	31,282	(63,144)
Cash and cash equivalents, beginning of the year	18	69,440	38,158	101,302
Cash and cash equivalents, end of the year	18	28,822	69,440	38,158

LLP SHALKIYA ZINC LTD
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	<u>Notes</u>	<u>Partners' capital</u>	<u>Accumulated deficit</u>	<u>Minority interest</u>	<u>Total</u>
in KZT thousands					
As at 1 January 2003		78	(371,203)	442	(370,683)
Net loss for the year		—	(193,075)	36	(193,039)
As at 31 December 2003	19	78	(564,278)	478	(563,722)
Effect of change in % ownership of					
Geoinforminvest		—	—	(243)	(243)
Net loss for the year		—	(992,930)	22	(992,908)
As at 31 December 2004	19	78	(1,557,208)	257	(1,556,873)
Net loss for the year		—	(1,335,310)	1,338	(1,333,972)
As at 31 December 2005	19	78	(2,892,518)	1,595	(2,890,845)

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

1. NATURE OF THE BUSINESS

LLP Shalkiya Zinc Ltd. (the “Partnership”) and its subsidiaries (the “Group”) was incorporated in April 2001 in Almaty, Republic of Kazakhstan. The Group’s activities are regulated in accordance with the contract concluded between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and the Group dated 21 May, 2002 for the extraction of complex ore in the Shalkiya field from 2002 to 2047. The Group’s main activities are exploration, extraction and processing of complex lead-zinc ore in the Shalkiya field, located in the Zhanakorgan area of the Kyzyl-Orda oblast of the Republic of Kazakhstan. The Group operates the Shalkiya mine and the Kentau concentrator. The main products are zinc and lead concentrates.

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

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

1st stage — 2001 – 2003:	Acquisition, repair and rehabilitation of the Group’s assets.
2nd stage — 2004 – 2006:	Commencement of production at the Kentau concentrator.

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

The number of employees of the Group as at 31 December 2005 was 808 (2004: 903, 2003: 435). Total staff costs for the year ended 31 December 2005 were 401,308 thousand tenge (2004: 315,642 thousand tenge; 2003: 102,640 thousand tenge).

The principal activities of the subsidiaries of the Partnership as at 31 December 2005 were as follows:

<u>Subsidiary</u>	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Year of formation</u>	<u>% share holding</u>
Geoinforminvest	Zinc exploration	Kazakhstan	2004	95%*
Shalkiya Stone Crushing Factory	Various	Kazakhstan	2005	100%

* The Partnership directly owns 95% of Geoinforminvest and the remaining 5% is owned by one of the partners, LLP Polymetall Resources (see note 32).

At 31 December 2005, Geoinforminvest had total assets of 201,181 thousand tenge (2004: 195,091 thousand tenge; 2003: 7,654 thousand tenge), and incurred a net loss for the year ended 31 December 2005 of 26,681 thousand tenge (2004: 436 thousand tenge; 2003: 476 thousand tenge). In December 2004, Geoinforminvest entered into a Subsurface Use Contract with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan for the exploration and extraction of complex ore in the Talap field. The exploration period is 2 years and the extraction period is 18 years.

Shalkiya Stone Crushing Factory did not have any operations in 2005.

2. BASIS OF PRESENTATION

The Group maintains its accounting records in Kazakhstani tenge (“KZT” or “tenge”) under Kazakhstan Accounting Standards (“KAS”). KAS differs from IFRS. Accordingly, the accompanying consolidated annual financial statements, which have been prepared using the Group’s Kazakhstani statutory accounting records, reflect the adjustments necessary for such financial statements to be presented in accordance with IFRS.

The accompanying consolidated annual financial statements were prepared on the historical cost basis.

(a) Going concern

The consolidated annual financial statements were prepared on a going concern basis. There is no evidence that the Group is intending or in a position to terminate or significantly reduce its operations in the near future.

LLP SHALKIYA ZINC LTD

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

The Group operates as a natural resources exploration and processing entity. It has not earned significant revenues since the start of production at the end of March 2004 and had an accumulated deficit of 2,892,518 thousand tenge as at 31 December 2005 (2004: 1,557,208 thousand tenge; 2003: 564,278 thousand tenge), a net loss of 1,333,972 thousand tenge for the year ended 31 December 2005 (2004: 992,908 thousand tenge; 2003: 193,039 thousand tenge), a net cash outflow from operating activities of 583,914 thousand tenge for the year ended 31 December 2005 (2004: 1,180,434 thousand tenge; 2003: 388,631 thousand tenge) and, as at 31 December 2005, the Group's total liabilities exceeded its total assets by 2,890,845 thousand tenge (2004: 1,556,873 thousand tenge; 2003: 563,722 thousand tenge). This condition indicates the existence of a material uncertainty which may cast significant doubt about the Group'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.

The Group engaged AMC Consultants (UK) Limited, an independent consulting mine engineering firm to perform an audit, estimation and classification of the Shalkiya deposit. An independent Competent Persons Report ("CPR") confirming the mineral content of the ore deposit, has been prepared and signed-off by AMC Consultants (UK) Limited. In this report the competent person estimated the mineral content, estimated the economically recoverable ore and classified the mineral deposit into resources (measured, indicated and inferred). A value-in-use valuation was performed by the competent person incorporating the Group's mine plans of 15 years, operating budgets and anticipated capital expenditure as well as future cashflows derived from the sale of finished products.

Management has prepared estimated future cashflows for the next 5 years, based on certain assumptions. The actual results for the nine months ended 30 September 2006 support the estimated future positive cashflows.

The existing partners have pledged their continued financial support until such time that the partnership's assets fairly valued exceed the liabilities.

The repayment terms of the long-term borrowings have been successfully renegotiated and extended (see notes 20 and 32).

(b) Significant uncertainty

The Group will require additional financing to advance the Group's current capital expenditure projects and to fund the repayment of its long-term borrowings. Whilst the Group has been successful in raising financing in the past, there can be no assurance that the Group will be able to raise such additional financing as may be required.

The Group intends to seek additional financing through the issuance of equity instruments.

The consolidated annual financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that may result from the outcome of this uncertainty.

(c) Measurement and presentation currency

The measurement and presentation currency of these consolidated annual financial statements is the Kazakhstani tenge.

(d) First time adoption of International Financial Reporting Standards

Before 1 January 2003 the Partnership prepared its financial statements in compliance with Kazakhstan Accounting Standards ("KAS").

The Group has adopted IFRS as the accounting framework for the preparation of these financial statements. For this purpose the Group prepared its opening balance sheet as at 1 January 2003 ("the date of transition to IFRS") in accordance with the requirements of IFRS 1, "First Time Adoption of International Financial Reporting Standards" ("IFRS 1"). This standard requires that the opening balance sheet as at the date of transition to IFRS be prepared in accordance with accounting policies that comply with each IFRS effective as at the date of preparation of the first complete set of IFRS financial statements. The first complete set of financial statements of the Group in accordance with IFRS, comprising a balance sheet and statements of operations and cash flows and changes in equity, as well as comparative information for the previous year, was prepared for the year ended

LLP SHALKIYA ZINC LTD
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

31 December 2005. The reconciliation required by IFRS 1 concerning the transition from KAS to IFRS are given below.

A reconciliation of the consolidated income statement of the Group for the years ended 31 December 2005 and 2003 as presented in the accompanying consolidated annual financial statements:

	Year ended 31 December 2005			Year ended 31 December 2003		
	2005 KAS	Effect of transition to IFRS	2005 IFRS	2003 KAS	Effect of transition to IFRS	2003 IFRS
	In KZT thousands					
Revenue	1,054,478	—	1,054,478	—	—	—
Cost of sales	(1,295,448)	(6,299)	(1,301,747)	—	—	—
Gross loss	(240,970)	(6,299)	(247,269)	—	—	—
General and administrative expenses	(411,192)	—	(411,192)	(165,716)	—	(165,716)
Distribution costs	(46,311)	—	(46,311)	—	—	—
Other operating expenses	(2,506)	—	(2,506)	(288)	—	(288)
Operating loss	(700,979)	(6,299)	(707,278)	(166,004)	—	(166,004)
Finance costs	(529,569)	(54,871)	(584,440)	(182,364)	—	(182,364)
Foreign exchange gain/(loss) ...	(32,899)	—	(32,899)	69,139	—	69,139
Other expenses, net	(9,355)	—	(9,355)	86,190	—	86,190
Loss before taxation	(1,272,802)	(61,170)	(1,333,972)	(193,039)	—	(193,039)
Taxation	—	—	—	—	—	—
Net loss for the year	(1,272,802)	(61,170)	(1,333,972)	(193,039)	—	(193,039)

LLP SHALKIYA ZINC LTD

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A reconciliation of the consolidated balance sheets as at 31 December 2005 and 1 January 2003 as presented in the accompanying consolidated annual financial statements:

	As at 31 December 2005			As at 1 January 2003		
	KAS	Effect of transition to IFRS	IFRS	KAS	Effect of transition to IFRS	IFRS
	In KZT thousands					
Assets						
Non-current assets	2,265,640	365,232	2,630,872	429,714	—	429,714
Property, plant and equipment	1,961,061	187,403	2,148,464	391,409	—	391,409
Exploration costs	51,826	177,829	229,655	—	—	—
Long-term portion of VAT receivable	252,753	—	252,753	38,305	—	38,305
Current assets	4,975,342	—	4,975,342	198,223	—	198,223
Short-term portion of VAT receivable	239,551	—	239,551	—	—	—
Inventories	574,918	—	574,918	14,119	—	14,119
Trade accounts receivable	1,595	—	1,595	765	—	765
Other accounts receivable	5,117	—	5,117	4,179	—	4,179
Prepayments to suppliers	121,539	—	121,539	77,858	—	77,858
Short-term investments	4,003,800	—	4,003,800	—	—	—
Cash and cash equivalents	28,822	—	28,822	101,302	—	101,302
Total assets	7,240,982	365,232	7,606,214	627,937	—	627,937
Partners' Equity and Liabilities						
Partner's equity	(2,801,140)	(89,705)	(2,890,845)	(370,683)	—	(370,683)
Partner capital	78	—	78	78	—	78
Accumulated deficit	(2,802,813)	(89,705)	(2,892,518)	(371,203)	—	(371,203)
Equity attributable to the partners of the limited liability partnership	(2,802,735)	(89,705)	(2,892,440)	(371,125)	—	(371,125)
Minority interest	1,595	—	1,595	442	—	442
Non-current liabilities	5,716,500	454,937	6,171,437	991,321	—	991,321
Long-term borrowings	5,716,500	—	5,716,500	991,321	—	991,321
Provision for future site restoration	—	249,993	249,993	—	—	—
Due to the Republic of Kazakhstan	—	204,944	204,944	—	—	—
Current liabilities	4,325,622	—	4,325,622	7,299	—	7,299
Current portion of long-term borrowings	4,207,250	—	4,207,250	—	—	—
Trade accounts payable	32,564	—	32,564	1,613	—	1,613
Taxes payable	3,892	—	3,892	2,533	—	2,533
Advances received	69,584	—	69,584	—	—	—
Other current liabilities	12,332	—	12,332	3,153	—	3,153
Total partners' equity and liabilities	7,240,982	365,232	7,606,214	627,937	—	627,937

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those used by the Partnership. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values as at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

(b) Property, plant and equipment

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

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

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

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

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

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

(c) Exploration costs

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

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.

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**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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(d) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell or value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

(e) Inventories

Finished goods — Finished goods are measured at the lower of net production cost or net realizable value per unit.

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

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

(f) Trade accounts receivable

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

(g) Other accounts receivable

Other accounts receivable comprises assets with an expected maturity of up to one year and are stated at their nominal value.

(h) Taxes recoverable and prepaid

Taxes recoverable and prepaid include taxes that are expected to be realized within one year and are stated at their nominal value.

(i) Cash and cash equivalents

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

(j) Short-term investments held-for-sale

Short-term investments held-for-sale are initially measured at cost and are subsequently carried at fair value at the balance sheet date.

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

(k) Provisions

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

(l) Accounts payable

Accounts payable are stated at their nominal value.

(m) Long-term borrowings

Borrowing costs are recognized as an expense in the period in which they are incurred.

(n) Retirement and other employee benefit obligations

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

(o) Offset of financial assets and liabilities

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

(p) Leases

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

(q) Revenue recognition

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

(r) Royalty

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

(s) Taxation

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to offset the recognized amounts of current tax assets and current tax liabilities;

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- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- 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.

(t) Contingencies

Contingent liabilities are not recognized in the consolidated annual 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 annual financial statements but disclosed when an inflow of economic benefits is probable.

(u) Foreign currency translation

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

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical judgments in applying the entity's accounting policies

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

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

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

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

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Contingencies — By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events (see note 29).

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	2005	2003	2004
	in KZT thousands		
5. REVENUE			
Revenue from sales of zinc concentrate	939,612	303,676	—
Revenue from sales of lead concentrate	114,866	29,900	—
Total	1,054,478	333,576	—
6. COST OF SALES			
On-mine and concentrating costs (see note 7)	810,982	501,814	—
Ore transportation expenses	176,956	107,467	—
Other expenses (including royalty)	21,280	6,202	—
Cash operating cost	1,009,218	615,483	—
Amortization and depreciation of operating assets (see note 12)	233,720	170,534	—
Total cost of production	1,242,938	786,017	—
Change in finished goods (see note 15)	58,809	(146,910)	—
Total	1,301,747	639,107	—
7. ON-MINE AND CONCENTRATING COSTS			
Consumables and spares	339,926	213,174	—
Labour	212,630	134,487	—
Power and other utilities	162,288	100,163	—
Maintenance of property, plant and equipment	66,820	35,358	—
Third party services	29,318	18,632	—
Total (see note 6)	810,982	501,814	—
8. GENERAL AND ADMINISTRATIVE EXPENSES			
Payroll and salary taxes	173,726	181,156	55,989
Taxes	36,024	26,273	16,662
Consulting services	33,916	5,390	6,547
Insurance	28,388	27,196	7,649
Business trip expenses	23,674	17,173	51
Rent	19,539	18,580	9,113
Depreciation (see note 12)	19,495	20,235	26,714
Bank charges	15,160	7,341	1,126
Communication	12,655	12,243	4,497
Materials	9,048	14,326	8,072
Security services	2,068	7,364	12,557
Maintenance costs	1,623	7,467	3,695
Other	35,876	43,895	13,044
Total	411,192	388,639	165,716
9. DISTRIBUTION COSTS			
Railway services	36,802	20,045	—
Packaging expenses	6,064	3,411	—
Other	3,445	2,648	—
Total	46,311	26,104	—

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	2005	2003	2004
	in KZT thousands		
10. FINANCE COSTS			
Interest expense related to long-term borrowings (see note 20)	529,569	339,667	182,364
Unwinding of discount (see note 21)	27,756	23,811	—
Unwinding of discount (see note 22)	27,115	—	—
Total	584,440	363,478	182,364

11. TAXATION

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

Loss before taxation	(1,333,972)	(992,908)	(193,039)
Tax benefit at the statutory tax rate of 30%	(400,192)	(297,872)	(57,912)
Tax effect of permanent differences	20,577	20,831	24,140
Change in unrecognized deferred tax asset (see note 26)	379,615	277,041	33,772
Income tax expense	—	—	—

The Group has unused tax losses, available for carry forward against future taxable income, that will expire annually starting from 2008 to 2011, if not utilized against future taxable income (see note 26).

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12. PROPERTY, PLANT AND EQUIPMENT

	Land	Mine development costs	Buildings and construction	Machinery and production equipment in KZT thousands	Vehicles	Other	Construction-in-progress (CIP)	Total
Cost								
As at 1 January 2003	—	61,238	257,244	57,291	9,945	—	15,134	400,852
Additions	5,462	284,561	245,204	620,134	19,798	261	83,253	1,258,673
Transfers from CIP ...	—	—	14,391	8,618	—	—	(23,009)	—
Disposals	—	—	—	(6,228)	(1,725)	—	—	(7,953)
As at 31 December								
2003	5,462	345,799	516,839	679,815	28,018	261	75,378	1,651,572
Additions	—	38,488	17	264,230	7,883	23,202	84,625	418,445
Transfers from CIP ...	—	—	14,504	43,788	—	29,444	(87,736)	—
Disposals	—	—	—	(45)	(1,258)	(15)	—	(1,318)
As at 31 December								
2004	5,462	384,287	531,360	987,788	34,643	52,892	72,267	2,068,699
Additions	316	6,902	31,707	323,814	6,928	17,294	177,280	564,241
Transfers from CIP ...	—	—	49,438	19,734	—	1,894	(71,066)	—
Disposals	—	—	—	—	(3,393)	(290)	(1,583)	(5,266)
As at 31 December								
2005	5,778	391,189	612,505	1,331,336	38,178	71,790	176,898	2,627,674
Accumulated amortization and depreciation								
As at 1 January 2003	—	—	(5,145)	(3,871)	(427)	—	—	(9,443)
Amortization and depreciation charge	—	—	(13,879)	(11,531)	(1,299)	(5)	—	(26,714)
Disposals	—	—	—	—	110	—	—	110
As at 31 December								
2003	—	—	(19,024)	(15,402)	(1,616)	(5)	—	(36,047)
Amortization and depreciation charge	—	(10,410)	(32,177)	(138,764)	(3,728)	(5,690)	—	(190,769)
Disposals	—	—	—	13	293	5	—	311
As at 31 December								
2004	—	(10,410)	(51,201)	(154,153)	(5,051)	(5,690)	—	(226,505)
Amortization and depreciation charge	—	(12,435)	(48,044)	(182,575)	(4,076)	(6,085)	—	(253,215)
Disposals	—	—	—	—	487	23	—	510
As at 31 December								
2005	—	(22,845)	(99,245)	(336,728)	(8,640)	(11,752)	—	(479,210)
Net book value								
As at 31 December								
2003	5,462	345,799	497,815	664,413	26,402	256	75,378	1,615,525
As at 31 December								
2004	5,462	373,877	480,159	833,635	29,592	47,202	72,267	1,842,194
As at 31 December								
2005	5,778	368,344	513,260	994,608	29,538	60,038	176,898	2,148,464

Property, plant and equipment with a net carrying value of 1,148,604 thousand tenge, 1,384,206 thousand tenge, and 889,795 thousand tenge as at 31 December 2005, 2004 and 2003 respectively, has been pledged to secure banking facilities (see note 20).

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
	in KZT thousands		
13. EXPLORATION COSTS			
Balance at the beginning of the year	200,062	—	—
Capitalized historical cost related to the Talap deposit (see note 22)	—	177,829	—
Other additions	29,593	22,233	—
Balance at the end of the year	<u>229,655</u>	<u>200,062</u>	<u>—</u>

14. VAT RECEIVABLE

Long-term portion of VAT receivable	252,753	131,712	198,264
Short-term portion of VAT receivable	239,551	214,180	—
Total	<u>492,304</u>	<u>345,892</u>	<u>198,264</u>

15. INVENTORIES

Finished goods	88,101	146,910	—
Work-in-process	82,664	23,903	6,183
Stores and materials	404,153	360,792	81,754
Total	<u>574,918</u>	<u>531,605</u>	<u>87,937</u>

16. PREPAYMENTS TO SUPPLIERS

Prepayments for services	71,253	50,354	33,192
Prepayments for goods and materials	33,542	101,563	65,234
Other	16,744	3,419	—
Total	<u>121,539</u>	<u>155,336</u>	<u>98,426</u>

17. SHORT-TERM INVESTMENTS HELD-FOR-SALE

<u>Security</u>	<u>Maturity date</u>	<u>Number of bonds</u>	<u>Face value</u>	<u>Coupon rate</u>	<u>2005 Fair value</u>
Rabobank Nederland bonds	3 Aug, 2006	7,605,000	801,520	14.50%	800,760
Rabobank Nederland bonds	9 Aug 2007	7,592,000	801,495	13.25%	800,760
Komunalbank bonds	2 Aug, 2006	7,595,000	803,023	14.50%	800,760
Defta Bank plc bonds	14 Nov, 2006	7,876,000	799,467	14.25%	800,760
Republic of Austria Intl bonds	14 Dec, 2006	8,269,000	798,511	10.00%	800,760
Total			<u>4,004,016</u>		<u>4,003,800</u>

The bonds were pledged to Bank TuranAlem as security for long-term borrowings of 4,003,800 thousand tenge (see note 20).

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	2005	2004	2003
	in KZT thousands		
18. CASH AND CASH EQUIVALENTS			
Cash in banks	23,486	62,256	33,164
Cash in special deposits*	1,972	—	—
Cash on hand	3,364	7,184	4,994
Total	28,822	69,440	38,158

* Pursuant to the Shalkiya Subsurface Use Contract, the Company is obliged to accumulate cash to meet provision for future site restoration related to obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage (see note 21).

19. PARTNERS' CAPITAL

	2005		2004		2003	
Denmar Asset Management Inc. BVI	54%	42	54%	42	87%	68
LLP Polymetall Resources	36%	28	36%	28	—	—
LLP AgroNeft	10%	8	10%	8	10%	8
Kairat Bektanov	—	—	—	—	3%	2
Total	100%	78	100%	78	100%	78

20. LONG-TERM BORROWINGS

KZT denominated borrowings due to Bank TuranAlem

	2005	2004	2003
	in KZT thousands		
Balance at the beginning of the year	3,052,100	1,480,932	—
Borrowings granted during the year	5,013,718	1,325,102	1,417,585
Interest charged for the year	390,850	246,402	64,260
Gain on change in interest rate	—	—	(913)
	8,456,668	3,052,436	1,480,932
Less: amount repaid	270	336	—
Balance at the end of the year	8,456,398	3,052,100	1,480,932
Less: current portion shown under current liabilities	4,207,250	270	336
Long-term portion	4,249,148	3,051,830	1,480,596

The KZT-denominated borrowings are secured by a charge over the Group's property, plant and equipment and investments in securities (see notes 12 and 17) and bear interest at a rate of 12% per annum. In August 2006, the Group made repayments of pre-existing loan principal commitments and interest following the realization of the short term investments held-for-sale (see note 32). The remainder of the borrowings are payable in monthly installments commencing on 1 January 2009 and mature on 30 December 2013, as follows:

Within one year	4,207,250
In the second year	—
In the third year	—
In the fourth year	1,402,928
In the fifth year	714,782
After five years	2,131,438
	8,456,398

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
	in KZT thousands		
USD denominated borrowings due to Bank TuranAlem			
Balance at the beginning of the year	1,209,252	942,016	991,321
Borrowings granted during the year	283,730	291,454	1,685
Interest charged for the year	138,719	93,265	118,104
Gain on change in interest rate	—	—	(91,218)
Foreign exchange loss/(gain)	41,096	(117,483)	(77,876)
	<u>1,672,797</u>	<u>1,209,252</u>	<u>942,016</u>
Less amount repaid	<u>205,445</u>	<u>—</u>	<u>—</u>
Balance at the end of the year	1,467,352	1,209,252	942,016
Less: current portion shown under current liabilities	<u>—</u>	<u>205,445</u>	<u>—</u>
Long-term portion	<u>1,467,352</u>	<u>1,003,807</u>	<u>942,016</u>

The USD-denominated borrowings are secured by a charge over the Group's property, plant and equipment and investments in securities (see notes 12 and 17) and bear interest at rates ranging from 12% per annum to LIBOR plus 8%. These borrowings have maturity dates ranging from 1 November 2011 to 30 December 2013 as follows:

Within one year	—
In the second year	—
In the third year	—
In the fourth year	—
In the fifth year	—
After five years	<u>1,467,352</u>
	<u>1,467,352</u>

Summary of borrowings

Total borrowings	9,923,750	4,261,352	2,422,948
Less: current portion shown under current liabilities	<u>4,207,250</u>	<u>205,715</u>	<u>336</u>
Long-term portion	<u>5,716,500</u>	<u>4,055,637</u>	<u>2,422,612</u>

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	in KZT thousands		
21. PROVISION FOR FUTURE SITE RESTORATION			
Balance at the beginning of the year	222,237	198,426	198,426
Unwinding of discount at 12% (see note 10)	<u>27,756</u>	<u>23,811</u>	<u>—</u>
Balance at the end of the year	<u>249,993</u>	<u>222,237</u>	<u>198,426</u>
Restricted cash on special deposit (see note 18)	(1,972)	—	—
Unfunded portion of the provision	<u>248,021</u>	<u>222,237</u>	<u>198,426</u>

The provision for future site restoration relates to the contractual obligations contained in the Subsurface Use Contracts to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage. Primarily all 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 22,936,000 thousand tenge (or 1,180,000 thousand tenge in 2005 prices);
- The expected timing of the majority of the future cash expenditure is expected to take place at the end of the Shalkiya Subsurface Use Contract in 2047;
- The inflation rate is 8% per annum;
- The discount rate applied is 12% per annum.

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

22. DUE TO THE REPUBLIC OF KAZAKHSTAN

Balance at the beginning of the year	177,829	—	—
Capitalised historical costs related to the Talap deposit (see note 13) ..	—	177,829	—
Unwinding of discount at 12% (see note 10)	<u>27,115</u>	<u>—</u>	<u>—</u>
Balance at the end of the year	<u>204,944</u>	<u>177,829</u>	<u>—</u>

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

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

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

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	2005	2004	2003
	in KZT thousands		
23. TAXES PAYABLE			
Withholding income tax payable	3,226	—	—
Social tax payable	240	5,219	799
Other taxes payable	426	3,611	2,719
Total	3,892	8,830	3,518
24. ADVANCES RECEIVED			
Advances received for inventories	69,469	30,007	—
Advances received for services	115	5	—
Total	69,584	30,012	—
25. OTHER CURRENT LIABILITIES			
Rent payable	3,317	—	16
Payroll payable	2,136	—	1,332
Pension fund payable	1,783	1,600	2,031
Other payables	5,096	4,440	5,472
Total	12,332	6,040	8,851
26. DEFERRED TAXATION			
Deferred tax assets arising from:			
Capitalized costs	36,826	72,345	39,638
Tax losses available for carry forward	734,675	325,372	27,833
Total deferred tax assets	771,501	397,717	67,471
Deferred tax liabilities arising from:			
Differences in carrying values of property, plant and equipment	(81,073)	(86,904)	(33,699)
Total deferred tax liabilities	(81,073)	(86,904)	(33,699)
Net deferred tax position	690,428	310,813	33,772
Accumulated unrecognized deferred tax asset (see note 11)	(690,428)	(310,813)	(33,772)
	—	—	—

The Group has not recognized deferred tax assets related to Kazakhstani tax losses available for carryforward. Management believes that the amount and timing of realizing these potential benefits is not reasonably determinable (see note 11).

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27. RELATED PARTIES AND PARTIES WITH SIGNIFICANT INFLUENCE ON THE GROUP'S OPERATIONS

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

Included in other accounts receivable as at 31 December 2005 is an amount due by the General Director of 1,568 thousand tenge (2004: 265 thousand tenge; 2003: 269 thousand tenge).

The total number of key management personnel at 31 December 2005 is 5 persons (2004: 5; 2003: 5). The total compensation paid to key management personnel amounted to 57 thousand tenge and is included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2005 (2004: 47,158 thousand tenge; 2003: 16,307 thousand tenge).

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

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

- enterprises, that directly or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates — enterprises, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals (partners) owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- enterprises, in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major owners of the Group and enterprises that have a member of key management in common with the Group.

During the year ended 31 December 2005, the Group had material transactions with Bank TuranAlem. As disclosed in note 20, the Group received long-term borrowings from Bank TuranAlem of which the outstanding portion amounted to 8,878,106 thousand tenge as at 31 December 2005 (2004: 3,703,568 thousand tenge; 2003: 2,184,363 thousand tenge).

During the year ended 31 December 2005 the Group accrued interest on Bank TuranAlem loans of 529,569 thousand tenge (2004: 339,667 thousand tenge; 2003: 182,364 thousand tenge). Interest arrears outstanding at 31 December 2005 amounted to 1,045,644 thousand tenge (2004: 557,784 thousand tenge; 2003: 238,585 thousand tenge) and which is included in long-term borrowings (see note 20).

The suspension or elimination of business transactions with Bank TuranAlem could severely impact the operations of the Group.

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**NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
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28. PENSIONS AND RETIREMENT PLANS

In accordance with the law of the Republic of Kazakhstan “Pension provisioning in the Republic of Kazakhstan”, effective from 1 January 1998 and replacing the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulations accounts funded by the compulsory pension contributions of 10% from an employees’ income with a maximum statutory limit on these contributions of approximately 69,000 tenge per annum in 2005 (2004: 49,000 tenge; 2003: 37,500 tenge).

During the year ended 31 December 2005, compulsory pension contributions of 31,564 thousand tenge (2004: 23,235 thousand tenge; 2003: 8,377 thousand tenge) were charged to the consolidated income statement.

As at 31 December 2005 the Group was not liable for any supplemental, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

Management approved the following capital expenditure budgets:

	2006	2005
Maintenance of property, plant and equipment	104,860	148,159
Expansion of property, plant and equipment	49,202	96,742
Total	154,062	244,901

Budgeted capital expenditure allocated between:

Contracted	140,507	96,742
Not contracted	13,555	148,159
Total	154,062	244,901

Contracted obligations in respect of capital commitments after 2006 amount to approximately 16,000 thousand tenge.

Operating leases

The Partnership leases a building through an operating lease agreement which expires in April 2007. Future minimum lease payments due under the non-cancelable operating lease agreement at 31 December 2005 are as follows:

Due in one year	15,238
Due in the second year	5,079
Total	20,317

Contractual liabilities

As at 31 December 2005, the Group had the following contractual obligations:

- boxcars rental from Marsen for 40,131 thousand tenge (USD 300 thousand);
- purchase of sodium sulfide from TPK Olimp LLP for 58,950 thousand tenge (USD 450 thousand);
- purchase of explosives from Vertex LLP in for 46,820 thousand tenge (USD 350 thousand);
- purchase of grinding products from Kasting LLP for 100,330 thousand tenge (USD 750 thousand).

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to finance annually the professional training of the Kazakhstani staff for not less than 0.10% of operating costs.

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NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 — (Continued)

Pursuant to the Talap Subsurface Use Contract, the Group is obliged to finance annually the professional training of the Kazakhstani staff for not less than 1.00% of operating costs.

Liquidation fund

Pursuant to the Shalkiya Subsurface Use Contract, the Group is obliged to accumulate cash in a special bank account of not less than 1% of annual operating costs to fund the provision for future site restoration related to the 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 not less than 1% of exploration and annual operating costs (capped at USD 7,767,000) to meet the provision for future site restoration related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any chemical leakage.

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

Insurance

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

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's financial position or operating results.

Operating and regulatory environment

Although in recent years there has been a general improvement in economic conditions in the Republic of Kazakhstan, the country continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, and continuing efforts by the Government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

Republic of Kazakhstan Government pre-emption right

The Subsoil Law, as amended by the 2004-2005 Amendments, provides the Government with a pre-emption right to acquire subsoil use rights and participation interests in legal entities holding subsoil use rights and in any legal entity having direct or indirect control over a legal entity having subsoil use rights, if the core business of such controlling legal entity is related to subsoil use in Kazakhstan upon the transfer of such rights or interests. This pre-emption right permits the Government to purchase any such subsoil use rights and/or participation interests being offered for sale on terms no less favourable than those offered by other purchasers. The relevant governmental authority has the right to terminate a subsoil use contract if a transaction takes place in breach of this law. These provisions apply both to Kazakhstan and overseas legal entities operating in Kazakhstan. It is unclear whether the right of pre-emption could be exercised in respect of disposals, which have occurred without notice to the relevant authority and whether, for instance, such prior transactions could be unwound.

The Government has exercised its pre-emption rights under the Subsoil Law in respect of other companies.

Taxation

Tax laws in the Republic of Kazakhstan are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by

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

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. Whilst management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

30. RISK MANAGEMENT ACTIVITIES

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

Concentration of business risk

During 2005, the Group's sources of revenue resulted mainly from the sale of products to Cheriton Finance (UK) and Bozhou Alasahkou (China) — 91% (2004: 72%) and 9% (2004: 4%) of total sales, respectively. As such, the Group's assets and operations could be at risk due to negative changes in its relations with these entities.

Commodity price risk

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

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As at 31 December 2005, the Group believes that its maximum exposure to credit risk relates to its cash and accounts receivable as reflected in their carrying value.

Currency risk

The Group incurs foreign currency risk on sales and loans that are denominated in a currency other than tenge. The currency giving rise to this risk is primarily the US dollar. The Group does not hedge its foreign currency risks.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In accordance with the subsoil contracts, the Group is obliged to carry medical insurance, insurance against accidents during production and occupational diseases to its employees.

At 31 December 2005, the Group believes it had sufficient insurance policies in force in respect of public liability.

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Interest rate risk

The Group has long-term borrowings which are exposed to fluctuation in the LIBOR interest rate.

31. FINANCIAL INSTRUMENTS

Disclosure of the estimated fair values of financial instruments is made in accordance with the requirements of IAS 32 “Financial instruments: Disclosure and presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount for which the instrument can be exchanged between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holding of a particular instrument.

As at 31 December 2005 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash

The carrying amount of cash balances represents their fair value.

Trade and other accounts receivable

The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trade and other accounts payable

The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

Short-term investments held-for-sale

The carrying amount of short-term investments held-for-sale is stated at fair value, with any resultant gain or loss recognized in the income statement.

Short-term borrowings

The carrying amount of short term borrowings is a reasonable estimate of their fair value.

Long-term borrowings

The carrying amount of long-term borrowings is considered a reasonable estimate of their fair value as the nominal interest rate on long-term borrowings is considered to be a reasonable approximation of the fair market rate with reference to loans with a similar credit risk level and maturity period at the reporting date.

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32. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Group borrowed a total of 90,000 thousand tenge from Bank TuranAlem through a series of advances in February 2006 and repaid a pre-existing loan principal of 55 million tenge in May 2006.

In August and September 2006, the Group amended certain terms of its KZT and USD denominated loans with Bank TuranAlem totaling approximately 5,716,000 thousand tenge including deferring the maturity of:

- the KZT-denominated tranche of the loans to up to 2013, with quarterly repayments beginning in 2009, and
- a part of the US dollar-denominated tranche of the loans to 2011 and 2013.

In August 2006, the Group disposed of short term investments held for sale (see note 17), previously used as security for its loans with Bank TuranAlem and used the proceeds of this disposal to repay 4,003,000 thousand tenge of the outstanding principal amount under the Bank TuranAlem loans (see note 20).

In August 2006, the Partnership acquired the remaining 5% interest in Geoinforminvest from one of its partners, LLP Polymetall Resources, for a total consideration of 7,800 thousand tenge.

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

On 6 November 2006, Denmar Asset Management Inc. BVI, LLP Polymetall Resources and LLP Agroneft sold their respective interests in the Partnership to Shalkiya Zinc N.V. Shalkiya Zinc N.V. became the sole partner of the Partnership on that date.

The ultimate beneficial shareholders became:

- Rifat Rizoyev (67%);
- Assylbek Abuov (15%);
- Marat Sarkytbayev and Samat Kazymov jointly (18%).

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