MANAGEMENT DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of financial condition and results of operations should be read in conjunction with the audited Consolidated Financial Statements of Chagala Group Limited (the "Group") as at and for the year ended 31 December 2011 and Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011 prepared in accordance with IFRS.

Throughout this report, unless otherwise indicated by the context, references herein to the "Group", "we", our" or "us" means Chagala Group Limited, incorporated in the British Virgin Islands, and its corporate subsidiaries.

This Management's Discussion and Analysis (MD&A) reflects information known to management as at 25 March 2011.

Additional information relating to the Group, including our most current annual information form, is available on www.chagalagroup.com.

Information concerning forward-looking statements

Any statement contained in this Management's Discussion and Analysis that is not a statement of historical fact may be deemed to be forward-looking, including statements about our revenue, spending, cash flow, products, actions, intentions, plans, strategies and objectives. Without limiting the foregoing, words such as " may", " hope", " will", " expect", " believe", " anticipate", " estimate", " projected" or " continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainty, and actual results may differ materially depending on a variety of factors, many of which are not within our control.

Forward-looking statements are predictions and not guarantees of future performance or events. The forward-looking statements are based on current industry, financial and economic information which we have assessed but which, by its nature, is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. We hereby qualify all our forward-looking statements by these cautionary statements. We undertake no obligation to amend this report or revise publicly these forward looking statements to reflect subsequent events or circumstances.

Introduction

Chagala Group is a facilities and services provider to the oil and gas industries in the Caspian region of Kazakhstan, now firmly established as one of the biggest geographical exploration and production areas worldwide, with its share of global oil exports expected to rise to 9 percent by 2035. In particular, the Group provides residential and business accommodation, associated catering, leisure, transport, warehousing and logistics support to the major companies involved in the oil and gas industry Kazakhstan.

The 2011 plans were influenced by unresolved issues surrounding the Karachaganak and Kashagan projects. However, despite the fact that Karachaganak and Kashagan project were delayed, affecting occupancy levels at our Aktau, Bautino, Uralsk and Aksai facilities in 2011, the Group was able keep the 2011 sales at the same level of 2010. As the delay on Kashagan continues and Karachaganak dispute has only recently been resolved, we, together with the rest of service operators in West Kazakhstan, may experience a decrease in sales from the 2011 level until both projects are back up to their full operating levels. The Company is tendering for the supply of accommodation units in Atyrau and the outcome of this tender will determine the extent of the decrease.

Recent development on Karachaganak project

The Karachaganak field located in West Kazakhstan Region was discovered in 1979 with commercial development to start in 1984. The residual reserves of the field are 1.2 billion tons of oil and gas condensate, and 1.35 trillion cubic meters of gas. The PSA for the field development was signed in 1997 for a 40-year term. Currently the Karachaganak consortium members are BG Group (32.5%), ENI Group (32.5%), Chevron (20%) and LUKOIL (15%).

In December 2011, the members of the Karachaganak consortium signed an agreement with the Republic of Kazakhstan regarding further development of the Karachaganak project. In particular, the Karachaganak consortium members will transfer to the National Company, KazMunayGas, 10% of interest in the Final Production Sharing Agreement for the Karachaganak oil and gas condensate field. Also, $1 billion of delayed or disputed taxes will be paid by the Consortium members to the state budget of Kazakhstan. To finance the share acquisition, the Karachaganak partnership members will provide $1 billion loan to KazMunayGas on market terms to be repaid in three years. In addition, the Republic of Kazakhstan will allocate an additional 0.5 million ton per annum quota to the Karachaganak consortium for oil pumping through the Tengiz-Novorossiysk oil-pipeline of the Caspian Pipeline Consortium, with a further increase of up to 2 million tons per annum as the pipeline capacity rises. The signed agreement provides mutual settlement of all legal claims, and of all settlement of tax claims and issues related to export custom duty payments. The agreement will enter into force on June 30, 2012, after fulfilling a number of conditions precedent by the parties.

In January 2012, President of the Republic of Kazakhstan urged the Karachaganak consortium to complete engineering and begin construction of a gas processing plant (GPP) in the Karachaganak field. "It is necessary to complete the engineering and begin construction of a gas processing plant with capacity of five billion cubic meters per year in the Karachaganak field," President of the Republic of Kazakhstan said in his annual Address to the Nation. Currently, Italy's Eni and British Petrofac are seeking permission to build the Karachaganak gas processing plant. Karachaganak gas processing plant will have to provide commercial gas for the Kazakhstan's gasification project. According to KazMunaiGaz, this project's feasibility study has already been prepared and there are two variants of the project implementation proposed by the companies Eni and Petrofac – 2015-2019 at a cost of USD 4.9 billion and 2013-2016 at a cost of USD 2.5 billion respectively. According to public sources, commencement of the construction of the Karachaganak gas processing plant is expected in 2013.

Recent development on Kashagan project

Kashagan is Kazakhstan's super-giant oil and gas field located in the north of the Caspian Sea. According to the Kazakh geologists, geological reserves at Kashagan are estimated at 4.8 billion tons of oil. Up to 50 million tons of oil is planned to be extracted in the first stage of development annually. Oil exports from the field can be doubled in the second phase scheduled for 2018 -2019. Besides, natural gas reserves are estimated at over 1 trillion cubic metres. At present, the largest participants of the Kashagan project are the companies Eni (16.81%), KazMunaiGaz (16.81%), Total (16.81%), ExxonMobil (16.81%), Royal Dutch Shell (16.81%), ConocoPhillips (8.4%) and Inpex (7.56%). The project is managed by North Caspian Operating Company, or NCOC.

Phases 2 and 3 of the Kashagan project have been delayed by the Government of Kazakhstan due to budget issues. The Government of Kazakhstan expects first oil from the first phase of the project in June 2013, while the Kashagan consortium members set a target of between December, 2012 and June, 2013 for first production. The second phase of the Kashagan oilfield is expected to be launched for production by 2018 or 2019,

Key operational highlights

Key operational highlights include:

- May 2011 — The contract for the lease of 33 townhouses in Atyrau for an initial period of three years and an extension of 2 years was signed with NCPOC. The townhouses will be used by NCPOC to accommodate staff and their families on a long term basis. This marks the first new major award from NCPOC for residential accommodation to Chagala. NCPOC is the operating company for theconsortium developing the Kashagan oil field.
- June 2011 — Start construction of 33 townhouses in Atyrau.
- August 2011 — Merger of Bautino Development Company LLP and Aktau Development Company LLP.
- November 2011 — Ural Residence Block A (first of 4 blocks) was opened in Atyrau. Block A has a total of 108 one to three bedroom apartments available for long-term lease.
- November 2011 — Approval of the issuance of the Kazakh tenge denominated bonds on Kazakhstani Stock Exchange for the amount of $30 mln.

<u>After 31 December 2011</u>

- January 2012 — A joint venture was agreed with a leading international fund manager ADM Capital (ADM) for development of projects in Kazakhstan where the majority of this joint venture will be held by ADM (70%) while 30% will be held by the Chagala Group. To date, initial projects have been identified in Atyrau and Almaty. Further projects will be sought where the joint venture identifies special situations where it can create value. Initial capital deployment is expected in the second quarter of 2012.
- March 2012 — Placement of the Kazakh tenge denominated bonds through Kazakhstani Stock Exchange for the amount of $15 mln through the local SPV, Caspi Limited.
- March 2012 — 33 townhouses were delivered to NCPOC.

Despite delay in development of phase 2 of the Kashagan project , our Atyrau complex continued to grow, although we do not expect further growth in 2012, except development projects which were identified in Atyrau by the joint venture with ADM. The joint venture with ADM will look to deploy up to USD 60 mln focused on the development of commercial and residential properties in Kazakhstan, mainly Atyrau and Almaty.

Also due to this delay, our Recreational Commercial Park in Bautino, continues to be on hold.

The Group continue to work hard to increase occupancy levels at our apart-hotel in Aktau and Uralsk. These projects will develop to their full potential only once the Karachaganak and Kashagan issues have been resolved.

1. Operating results, comments on the period of 2011 compared to 2010

1.1 Operating revenue and profit

The following table represents our operating results for the year ended 31 December 2011 and 2010:

In thousands of US Dollars	**Year 2011**	**Year 2010**	**% Change**
Room and rent revenue	24,891	25,116	-0.9%
Food and beverages revenue	8,493	9,331	-9.0%
Other operating revenue	2,844	1,629	74.6%
TOTAL REVENUE	**36,228**	**36,076**	0.4%
Utilities, cleaning and maintenance	5,304	4,827	9.9%
Costs of food and beverages	2,758	2,956	-6.7%
Salaries and employee benefits	9,883	10,243	-3.5%
General and administrative expenses	4,373	3,586	21.9%
EBITDA	**13,910**	**14,464**	**-3.8%**
Depreciation and amortization	6,784	5,167	31.3%
OPERATING PROFIT	**7,126**	**9,297**	**-23.4%**

The 2011 plans were influenced by the unresolved issues surrounding the Karachaganak and Kashagan projects. However, the Group was able keep the 2011 sales at the same level of 2010.

The increase of expenses was mainly due to increases in our number of completed buildings and buildings under construction in order to meet a considerable increase in demands which are expected after commencing operation and construction activities in the Karachaganak field and resolving issues related to the Kashagan project at the end of 2012 or at the beginning of 2013:

- The increase in utilities, cleaning and maintenance expenses was primarily the result of new accommodation facilities launched in 2011 and 2010 (see Note 1.3.1).
- The increase in general and administrative expenses was primarily the result of an increase in property tax following an increase of fair value of properties as at 31 December 2010 and as a result of new assets put into operations during 2011 (see Notes 1.3.4 and 3.1.1).
- Depreciation and amortization increases were also due to increases in the fair value of properties as at 31 December 2010 and as a result of new assets put into operations during 2011 (see Note 1.3.5).

1.2 Revenue

Revenue comprises:

a) ‘‘Room and rent revenue’’ which is the revenue from leasing hotel rooms, serviced apartments, office space and other similar facilities;

b) ‘‘Food and beverage revenue’’ which is the revenue from all our food and beverage outlets plus that derived from providing partial or full board to the serviced apartments;

c) “Other operating revenue” which is the revenue from our sport facilities membership fees, the revenue from facility management and maintenance and other operating revenues.

During this period our revenue increased from USD 36,076 thousand during the twelve months ended 31 December 2010 to USD 36,228 thousand during the twelve months ended 31 December 2011. This 0.4% increase resulted from an increase in the area of office space rented (see Note 1.2.1) and additional revenue from maintenance services (see Note 1.2.3).

1.2.1 Room and rent revenue

Room and rent revenue decreased from USD 25,116 thousand during 2010 to USD 24,891 thousand during 2011.

In thousands of US Dollars	**Year 2011**	**Year 2010**
Hotels and serviced appartments	15,467	17,087
Offices rent	9,424	8,029
TOTAL	**24,891**	**25,116**

Hotels and serviced apartments revenue decreased by USD 1,620 thousand (9.5%) due to a decrease in rates of occupancy of the hotels and serviced apartments because of the following:

- significant outflow of staff of the Karachaganak consortium affected the Uralsk and Aksai sales due to delay of development of the Karachaganak oil field;
- outflow of the Kashagan consortium staff starting from August 2011 additionally affected the Bautino sales and decreased the business activity in Atyrau region.

Office rent revenue increased by USD 1,395 thousand (17%) as a result of the following:

- an increase in office rental rates in Atyrau starting 1 January 2011;
- provision of an additional office spaces to new and existing clients in Atyrau.

1.2.2 Food and beverage revenue

Food and beverage revenue decreased from USD 9,331 thousand during the twelve months ended 31 December 2010 to USD 8,493 thousand during the twelve months ended 31 December 2011. This decrease of 9.0% was mainly due to a decrease in the rate of occupancy of the hotels and serviced apartments by 9.5% (see 1.2.1).

1.2.3 Other operating revenue

Other operating revenue increased from USD 1,629 thousand during 2010 to USD 2,844 thousand during 2011 as a result of the following:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Laundry	508	514
Maintenance services	1,261	370
Facilities management	128	129
Membership fee (Sport & Leisure)	45	37
Other	902	579
TOTAL	**2,844**	**1,629**

- Laundry revenue decreased due to lower occupancy of the hotels and serviced apartments.
- Maintenance services revenue significantly increased due to requests of the clients for the power upgrade of the offices for increasing an efficiency of power supply systems.
- Other revenues were earned by providing:
  - the project management services in Astana *(supervision of construction of the passenger carriers manufacturing factory "Tulpar-Talgo").*
  - the room cleaning services to an oil & gas company in Uralsk *(during February-May 2011)*.

1.3 Costs and expenses

Costs and expenses include various costs incurred in operating the hotels and serviced apartments, managing the offices and other facilities as follows:

1.3.1 Utilities, cleaning and maintenance

This includes the costs related to the selling of the hotel rooms and the serviced apartments and leasing the offices, including utility costs, room amenities for the hotels and serviced apartments, consumables and security.

Utilities, cleaning and maintenance expenses increased from USD 4,827 thousand during the twelve months ended 31 December 2010 to USD 5,304 thousand during the twelve months ended 31 December 2011. This 9.9% increase was primarily the result of the following:

- new accommodation facilities in Uralsk were operated during the whole year 2011 while during 2010 they were operated during the last 9 months;
- new accommodation facilities in Aktau were operated during the whole year 2011 while during 2010 they were operated during the last 10 months;
- new accommodation facilities were launched in Atyrau in November 2011.

1.3.2 Costs of food and beverages

This includes the cost of the consumed food and beverages.

The costs of food and beverage decreased from USD 2,956 thousand during the twelve months ended 31 December 2010 to USD 2,758 thousand during the twelve months ended 31 December 2011. This decrease of 6.7% is primarily due to the decrease of sales of food and beverages by 9.0%. The total food and beverage margin at the level of 2010 were as follows:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Food Revenue	7,241	7,941
Food Costs	2,342	2,451
Food costs as % of Food revenue	32.3%	30.9%

In thousands of US Dollars	**Year 2011**	**Year 2010**
Beverage Revenue	1,252	1,390
Beverage Costs	416	505
Beverage costs as % of Beverage revenue	33.2%	36.3%

1.3.3 Salaries and employee benefits

This includes local and expatriate staff salaries, including sick leave, vacation pay, statutory payments, taxes and other benefits as well as recruitment and training costs.

Salaries and employee benefits decreased from USD 10,243 thousand during the twelve months ended 31 December 2010 to USD 9,883 thousand during the twelve months ended 31 December 2011. This 3.5% decrease was primarily the result of the following:

- decrease of number of employees due to improving of business processes (*number of the Group's employees at the end of 31 December 2011 and 2010 were 683 and 715, respectively);*
- recruitment costs were minimized;
- stock options for 680,000 shares at the exercise price of USD 0.875 and 154,440 shares at the exercise price of USD 1.94 were granted in 2010 while stock options for 680,000 shares only were granted in 2011.

1.3.4 General and administrative expenses

General and administrative expenses for the twelve months ended 31 December are represented as follows:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Taxes, duties and fees (mainly property tax)	1,741	1,270
Audit and valuation costs (incl. other professional fees)	780	705
Communication	313	303
Replacement costs	179	111
Marketing	256	264
Insurance	167	179
Bank charges	127	131
Travel	235	148
Other	574	475
TOTAL	**4,373**	**3,586**

General and administrative expenses increased from USD 3,586 thousand during the twelve months ended 31 December 2010 to USD 4,373 thousand during the twelve months ended 31 December 2011. This 21.9% increase is mainly as a result of the following:

- increase in property tax following an increase of fair value of properties as at 31 December 2010 *(the 2011 property tax was calculated based on the fair value of property plant and equipment of USD 141,864 thousand as at 31 December 2010 while the 2010 property tax was calculated based on the fair value of property plant and equipment of USD 106,043 thousand as at 31December 2009)* and as a result of new assets put into operation during 2011;
- increase of professional services due to tax and accounting services incurred in the establishment of our Dutch companies.

1.3.5 Depreciation and amortization

This includes the depreciation charged in accordance with our accounting policies after each annual valuation of our properties .

Depreciation and amortization increased from USD 5,167 thousand during the twelve months ended 31 December 2010 to USD 6,784 thousand during the twelve months ended 31 December 2011. This 31.3% increase is due to the increase in the fair value of properties at the end of 2010 and the launch of new accommodation facilities in Atyrau in November 2011.

2. Net results, comments on the period of 2011 compared to 2010

2.1 Non operating results

The following table represents our net results for the year ended 31 December 2011 and 2010:

In thousands of US Dollars	Year 2011	Year 2010	% Change
Operating Profit	**7,126**	**9,297**	-23.4%
Net foreign currency translation gain / (loss)	(399)	24	1762.5%
Impairment of land, buildings and goodwill	(15)	(2,062)	99.3%
Loss on disposal of property, plant and equipm	(87)	(81)	-7.4%
Finance income	41	58	29.3%
Finance expenses	(2,074)	(1,928)	-7.6%
Other gain (loss)	135	(20)	775.0%
Profit before income tax	**4,727**	**5,288**	**-10.6%**
Income tax expense	(2,435)	(1,300)	87.3%
Net profit for the year	**2,292**	**3,988**	**-42.5%**

2.1.1 Net foreign currency translation gain / (loss)

This includes gains and losses on our foreign exchange exposure including foreign currency loans, cash and cash equivalents, payables and receivables accounts.

The functional currency of the Company and its subsidiaries is Kazakh Tenge ("Tenge") while all items included in the financial statements of each entity are measured using that functional currency.

Tenge is not a fully convertible currency outside the territory of the Republic of Kazakhstan. The Group used exchange rates of Tenge to the U.S. Dollar established by the National Bank of the Republic of Kazakhstan. Overview of foreign exchange rates of the Tenge to the U.S. Dollar ("USD") established by the National Bank of Republic of Kazakhstan:

	Exchange rate at 31 December	Weighted average rate during the year
2011	148.40	146.62
2010	147.40	147.35
2009	148.36	147.51

Net foreign currency translation loss of USD 399 thousand in 2011 was incurred because of weakening of the exchange rate of Tenge to USD (from 147.4 to 148.4), while strengthening of Tenge in 2010 (from 148.36 to 147.4) resulted in a gain of USD 24 thousand. Also, the 2011 net foreign currency translation loss increased due to additional receipt of the USD denominated loan from HSBC Bank and Raiffeisen Bank International AG to the amount of USD 15 mln.

In March 2012, the Group placed the Tenge denominated bonds for USD 15 mln where proceeds from this placement were used for repayment of last tranche of the USD denominated loan obtained from HSBC Bank and Raiffeisen Bank International AG (Austria).

Currently, the Group is not engaged on currency hedging activities due to the balance between the revenues and expenses in USD and Tenge. This policy may change, depending on the developments of the exchange rate of Tenge/U.S. Dollar.

2.1.2 Impairment of property, plant and equipment and goodwill

The Group assessed whether property, plant and equipment, goodwill and financial assets are impaired. The Group engaged an independent appraiser, Veritas Brown in 2011 (KPMG in 2010), to determine the fair value of its land and buildings at 31 December.

In 2011 and 2010, the Group recognized (impairment)/reversal of prior-year impairment of the following assets:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Apartment-Hotel complex in Aktau	(1,476)	1,206
Apartment-Hotel complex in Uralsk	(141)	807
Land in Aktau	(63)	-
Ural Building in Atyrau	1,491	-
Technical Building for Ural Building in Atyrau	183	-
Other	21	49
TOTAL	**15**	**2,062**

Fair value of land is determined by reference to market-based transactions while fair value of buildings is determined by using the income approach (expected profit from the facility).

2.1.3 Loss on disposal of property, plant and equipment

The Group recorded the loss on disposal of property, plant and equipment in the amount of USD 87 thousand in 2011 (2010: USD 81 thousand) which resulted from physical deterioration of certain equipment.

2.1.4 Finance income / (expenses)

Finance income of USD 41 thousand and USD 58 thousand in 2011 and 2010, respectively, represents interest from bank deposits.

Finance expenses represent an interest accrued on borrowings and fair value of interest rate swap instruments as follows:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Interest expense on borrowings	1,418	1,256
Amortisation of loan arrangement fees	377	291
Loss on swap derivative instrument	230	327
Other	49	54
TOTAL	**2,074**	**1,928**

The increase in the interest expense on borrowings and amortization of loan arrangement fees is mainly due to additional borrowings of USD 15 mln made at the end of 2010 and during 2011 under the credit facility agreement with HSBC Bank and Raiffeisen Bank International AG. Interest on these additional borrowings was booked as an expense from November 2011, being the date of completion of the new accommodation facility (Ural Residence) in Aytrau, while previously these interests were added to the cost of construction.

The loss on swap derivative instruments represent an adjustment of the fair value of the interest rate swap instrument which was recognized as a liability in the amount of USD 790 thousand and USD 558 thousand as at 31 December 2011 and 2010, respectively.

2.2 Profit before income tax

As a result of the factors described above, our profit before income tax decreased by 10.6%, from USD 5,288 thousand during fiscal 2010 to USD 4,727 thousand during fiscal 2011. The major reasons for this decrease and set-offs for the above, are the following:

- increase of revenue by USD 152 thousand;
- increase of utilities, cleaning and maintenance expenses by USD 477 thousand;
- decrease of salaries and employee benefits by USD 360 thousand;
- increase of depreciation and amortization expenses by USD 1,617 thousand;
- decrease of impairment losses by USD 2,047 thousand;
- increase of finance expenses by USD 146 thousand.

2.3 Income tax

Income tax expense / (benefit) includes current income tax expense in the amount of USD 1,489 thousand and deferred tax expense in the amount of USD 946 thousand.

In thousands of US Dollars	**Year 2011**	**Year 2010**
Current income tax expense	1,489	1,994
Deferred income tax expense / (benefit), net	946	(694)
Income tax expense	**2,435**	**1,300**

Current income tax expense is measured at the amount expected to be paid to the taxation authorities. Current income tax expense decreased due to the decrease of the taxable income in Caspi Limited LLP.

Below is reconciliation between the theoretical tax charge at statutory tax rate of 20% based on profit before income tax and current income tax:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Profit before income tax	**4 727**	**5 288**
Theoretical tax charge at statutory tax rate of 20%	**945**	**1 058**
Statutory tax rate change effect	-	(122)
Adjustments recorded in current income tax for prior periods	-	(244)
Unrecognized deferred tax assets	522	-
Non-deductible expenses	968	608
Income tax expense	**2 435**	**1 300**
Deferred income tax expense	(946)	(1 247)
Adjustments recorded in current income tax for prior periods	-	244
Statutory tax rate change effect	-	1 941
Current income tax expense	**1 489**	**2 238**

On 1 January 2009 a new tax code became effective. According to the new tax code, the corporate income tax rate was reduced from 30% to 20% for 2009, 17.5% for 2010 and 15% for 2011. The deferred tax assets and liabilities were calculated using the 15% rate since that was the future rate that was most likely be applicable. However, due to the economic crisis, the reduction of corporate income tax for 2010-2011 was cancelled. As a result, the deferred tax previously provided was adjusted to reflect additional changes to the tax code with recognition of deferred tax expenses.

Unrecognized deferred tax assets represent the tax effect related to impairment of the Caspian Star land plot which will be reversed in the future after finalizing plans for development of projects associated with this land plot.

Deferred income tax expense mainly represents a temporary difference between accounting and tax depreciation. The difference between the 2011 and 2010 deferred tax expense is explained by different amounts of the following items charged to the book value of the property, plant and equipment during 2011 and 2010 (for additional information, please, see Note 3.1.1):

- revaluation of buildings *(book value was decreased by USD 9,373 thousand in 2011 while increased by USD 24,158 thousand in 2010)*;
- impairment of buildings *(book value was decreased by USD 25 thousand and USD 2,047 thousand in 2011 and 2010, respectively)*

while for tax purposes depreciation is calculated based on initial costs of property, plant and equipment and no valuation or impairment is taken into consideration.

As a result, movements in deferred tax balances were as follows:

In thousands of US Dollars	Year 2011	Year 2010
1 January	(10,253)	(4,158)
Recognised in Consolidated income statement:		
Opening balance restatement due to change of statutory tax rate	-	122
Deferred income tax benefit, net	(946)	572
	(946)	**694**
Recognised in Consolidated Statement of changes in equity:		
Opening balance restatement due to change of statutory tax rate	-	(1,941)
Deferred tax due to revaluation of property, plant and equipment	695	(4,823)
	(10,504)	**(6,764)**
Foreign currency translation	57	(25)
31 December	**(10,447)**	**(10,253)**

2.4 Net profit for the year

As a result of the above, during the twelve months ended the 31 December 2011 we experienced a net profit of USD 2,292 thousand compared to a net profit of USD 3,988 thousand during the twelve months ended the 31 December 2010.

The earnings per share decreased from USD 0.03 per share for 2010 to USD 0.05 for 2011. The number of shares (4 shares = 1 GDR) outstanding remains unchanged at 85,027 thousand.

3. ASSETS

3.1 Non-Current Assets

The following table represents the overview of non-current assets as at 31 December 2011 and 2010:

In thousands of US Dollars	31 December 2011	31 December 2010
Property, plant and equipment	153,405	141,864
Intangible assets	506	604
Capital work in progress	11,876	21,155
Long term prepayments	7,313	3,089
Investment in an associate	44	47
Deferred transaction costs	150	402
Restricted cash	42	40
Goodwill	2,167	2,182
Deferred tax asset	403	3,477
Non-Current Assets	**175,906**	**172,860**

3.1.1 Property, plant and equipment

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charges.

In thousands of US Dollars	31 December 2011	31 December 2010
Land	19,100	25,137
Buildings	120,906	106,748
Furniture and equipment	13,399	9,979
TOTAL	**153,405**	**141,864**

Fair value of land as at 31 December 2011 is determined by an independent appraiser, Veritas Brown (KPMG as at 31 December 2010), by reference to market-based evidence while fair value of buildings is determined by using the income approach which is based on determination of expected profit from the object of valuation. All other equipment is measured at cost less accumulated depreciation and impairment charges.

The following represents changes in property, plant and equipment during 2011:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Revaluation	(16,457)	27,827
Disposals and depreciations	(6,307)	(5,218)
Impairment	(13)	(2,062)
Purchase of new furniture and equipment, including additions to	4,093	2,126
New assets put into operations (transfers from capital work in progress)	30,225	13,148

Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement as impairment, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. The details of the impairment are indicated in Note 2.1.2 above.

3.1.2 Capital work in progress

Capital work in progress is measured at cost and is not depreciated, however the Group assesses at each reporting date whether there is an indication that an asset may be impaired.

The following represents changes in capital work in progress during 2011:

In thousands of US Dollars	**Year 2011**
Additions	22,882
New assets put into operations (transfers to property, plant and equipment)	(32,126)

Capital work in progress is related to the following projects under construction:

In thousands of US Dollars	**31 December 2011**
Caspi Limited LLP	
Masterplan	2,735
33 townhouses	6,867
New office building	762
Other	16
Aktau Development Company LLP	
Caspian Star (apartments and offices)	899
RCP Camp	188
Other projects	409
TOTAL	**11,876**

3.1.3 Long term prepayments

Long term prepayments as at 31 December 2011 in the amount of USD 7,313 thousand are mainly related to construction works and acquisition equipment for 33 townhouses.

3.1.4 Deferred transaction costs

Fees paid to obtain a firm commitment from a lender under a loan facility which relate to the un-drawn amount are initially recognized as deferred transaction costs when it is probable that the commitment will be utilized. These deferred expenses are amortized during the whole period of credit or capitalized during the construction and expensed afterwards.

Deferred transaction costs as at 31 December 2010 in the amount of USD 402 thousand are mainly related to construction of Ural Residence. Since all loans from HSBC Bank and Raiffeisen Bank International AG were received by 31 December 2011, all deferred transaction costs related thereto were set-off against the loans.

Deferred transaction costs of USD 150 thousand as at 31 December 2011 are mainly related to issuance of bonds by Caspi Limited LLP.

3.1.5 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized.

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections of the Group covering a 5-year period. Management believes that no reasonable possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	31 December 2011
Aktau Development Company LLP (Bautino)	1,617
Bayan Limited LLP	276
Chagala Aksai LLP	274
TOTAL	**2,167**

3.2 Current Assets

In thousands of US Dollars	**31 December 2011**	**31 December 2010**	**% Change**
Inventories	3,304	2,975	11.1%
Trade receivables	4,764	6,739	-29.3%
Taxes prepaid	3,822	3,632	5.2%
Other prepayments	461	384	20.1%
Cash and cash equivalents	1,839	13,582	-86.5%
Due from related parties outside the group	125	74	68.9%
Current Assets	**14,315**	**27,386**	**-47.7%**

3.2.1 Inventories

Inventories increased from USD 2,975 thousand as at 31 December 2010 to USD 3,304 thousand as at 31 December 2011. This 11% increase is mainly due to the launch of new accommodation facilities and refurbishment of existing facilities in Atyrau.

3.2.2 Trade receivables

Trade accounts receivable decreased from USD 6,739 thousand as at 31 December 2010 to USD 4,764 thousand as at 31 December 2011. This 29.3% decrease was mainly due to a decrease of sales and improvement of the process of collectability of receivables. As a result, 69% of receivables as at 31 December 2011 were not overdue while 25% were overdue for less than 30 days while 50% of receivables as at 31 December 2010 were not overdue while 41% were overdue for less than 30 days.

The Group's major part of trade receivables are USD denominated.

3.2.3 Taxes prepaid

The major part of taxes prepaid represents the VAT recoverable. As at 31 December 2011 and 2010 the VAT recoverable was USD 3,066 thousand and USD 3,176 thousand, respectively. The amount of VAT recoverable decreased due to reimbursement of VAT by the tax authority in Aktau.

3.2.4 Other prepayments

Other prepayments represent prepayments for goods and services required for providing the operational services for hotels, apartments, offices, restaurants and other facilities.

4. Liquidity and capital resources

4.1 Liquidity

The Group's primary source of liquidity is provided by the Group's operating and financing activities. Our capital resources consisted primarily of funds we have borrowed from banks and the sale of our services. As at 31 December 2011 we had cash of USD 1,839 thousand. We earned net profit of USD 2,292 thousand and USD 3,988 thousand for the year ended 31 December 2011 and 2010, respectively. Our current assets exceeded our current liabilities by USD 737 thousand and USD 19,013 thousand as at the year ended 31 December 2011 and 2010, respectively.

The following table sets forth key items from the Group's consolidated statements of cash flows for the years ended 31 December 2011 and 2010:

In thousands of US Dollars	**Year 2011**	**Year 2010**
Net cash from operating activities	11,281	9,229
Net cash used in investing activities	(30,022)	(11,865)
Net cash from financing activities	7,065	6,733
NET (DECREASE) INCREASE IN CASH	**(11,676)**	**4,097**

4.1.1 Net cash from operating activities

In fiscal 2011 net cash provided by operating activities was USD 11,281 thousand compared to net cash provided by operating activities of USD 9,229 thousand in fiscal 2010. This increase in net cash provided by operating activities primarily occurred due to improved work with clients, resulting in timely payment for the services provided.

4.1.2 Net cash used in investing activities

Net cash used in investing activities during the twelve months ended 31 December 2011 was USD 30,022 thousand.

The cash outflows in investing activity during the twelve months ended 31 December 2011 mainly occurred due to construction of, or building work on, the following:

- Ural Residence in Atyrau and
- 33 townhouses in Atyrau.

By comparison, during the twelve months ended 31 December, 2010, we used net cash in investing activities of USD 11,865 thousand. The cash outflows in investing activity during the twelve months ended 31 December 2010 mainly occurred due to construction of, or building work on, the following:

- Ural Residence in Atyrau,
- refurbishment to an office and 7 apartments in Atyrau,
- RCP Camp Phase 1 in Bautino,
- apartment building in Uralsk.

4.1.3 Net cash from financing activities

Net cash provided by financing activities during the twelve months ended 31 December 2011 was USD 7,065 thousand compared to net cash provided by financing activities of USD 6,733 thousand in fiscal year 2010.

The 2011 net cash inflow occurred due to net proceeds received by the Group under the Credit Facility Agreement with HSBC Bank Kazakhstan and Raiffeisen Bank International AG, the loan agreement with JSC KazInvestBank and the overdraft facility agreement with HSBC Bank Kazakhstan.

The 2010 net cash inflow occurred due to net proceeds received by the Group under the Credit Facility Agreement with HSBC Bank Kazakhstan and Raiffeisen Bank International AG only.

4.2 Current Liabilities

The following table represents the overview of current liabilities as at 31 December 2011 and 2010:

In thousands of US Dollars	Year 2011	Year 2010	% Change
Current portion of long-term borrowings	8,641	5,435	59.0%
Short term borrowings (overdraft facility)	2,022	-	n/a
Interest payable	352	80	340.0%
Trade accounts payable	1,893	1,594	18.8%
Advances from customers	56	39	43.6%
Taxes payable	388	890	-56.4%
Other payables and accruals	206	292	-29.5%
Due to related parties outside the Group	25	43	-41.9%
Current Liabilities	**13,583**	**8,373**	**62.2%**

Current liabilities primarily consisted of the current portion of long-term borrowings, short-term borrowings (overdraft facility), trade accounts payable, taxes payable and other payables and accruals.

Trade accounts payable represents payables to suppliers and service providers, mostly to contractors in connection with the Group's operating activities and the development of the Group's projects.

The balances of trade accounts payable, taxes payable and other payables and accruals were relatively at the same level during 2011 and 2010. As at 31 December 2010 the total of trade accounts payable, taxes payable and other payables and accruals was USD 2,487 thousand while as at 31 December 2010 the total was USD 2,776 thousand.

4.3 Non-current Liabilities

As at 31 December 2011 and 2010, the non-current liabilities were USD 37,000 thousand and USD 34,368 thousand, respectively.

This increase is mainly due to net cash of USD 7,065 thousand provided by financing activities during the twelve months ended 31 December 2011 (see Notes 4.1.3 and 4.4.2) and decrease of deferred tax liability due to revaluation of buildings.

4.4 Capital resources

4.4.1 <u>Capital commitments, capital expenditures and future projects</u>

As at 31 December 2011, the Group's material commitments for capital expenditure outstanding under concluded contracts was approximately USD 2,317 thousand which represents a decrease of USD 7,584 thousand (net of VAT) compared to the previous period.

The Group estimates that its current projects will require a total investment of approximately USD 2,317 thousand (including USD 1,048 thousand for completion of construction of the Ural Residence and USD 1,175 thousand for completion of construction of 33 townhouses). The Group plans to use a mixture of debt, equity, revenues and other internally generated cash to finance this construction work.

The Group's management is aware of the fact that Kazakhstan's economy is vulnerable to marked downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in instability in the capital markets, significant deterioration of liquidity in the banking sector and the tighter credit conditions. The market volatility in the real estate sector may significantly decrease or increase the carrying values of premises and equipment in the future. However, the Group is currently somewhat protected as a result of its focus on the oil and gas sector involving long term leases.

While the Group's management believes that it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas mentioned above could affect the Group's medium term (2-3 years) and long term (over the next 4-5 years) plans.

4.4.2 Long-term borrowings

On 12 June 2008, the Group entered into the credit facility agreement with HSBC Bank Kazakhstan JSC and Raiffeisen Zentralbank Osterreich AG, which was amended and restated on 21 October 2008 and 9 October 2009. The total amount of the credit facility was USD 53,500 thousand. On 22 November 2010, an additional amendment and restatement agreement was signed in order to decrease the total amount of the credit facility to USD 34,307 thousand and replace one of the lenders - Raiffeisen Zentralbank Osterreich AG (Austria) by another lender - Raiffeisen Bank International AG (Austria). As at 31 December 2010 the credit amount received was USD 29,359 thousand out of total credit facility where USD 2,758 thousand was repaid during 2010. In May 2011, the last tranche of USD 4,948 thousand under the facility was received where USD 5,821 thousand were repaid during 2011.

On 5 September 2011, Caspi Limited LLP entered into the loan agreement with JSC Kazinvestbank in order to draw USD 9.5 mln for the construction of 33 townhouses. The effective period of the agreement is 5 years until 2016. The repayment of principal and interests will start in April 2012.

The long-term borrowings also include the non-interest bearing loan obtained from Agip. As at 31 December 2011 and 2010, debt payable to Agip was USD 123 thousand and USD 387 thousand, respectively.

Long-term loans and borrowings are repayable as follows:

In thousands of US Dollars	**31 December 2011**	**31 December 2010**
Maturity up to 1 year	8,641	5,435
Total current portion	**8,641**	**5,435**
Maturity between 1 and 2 years	8,524	5,656
Maturity between 2 and 5 years	18,122	14,940
Maturity over 5 years	-	957
Total long-term portion	**26,646**	**21,553**
Total long-term borrowings	**35,287**	**26,988**

Also, on 6 September 2011, Caspi Limited LLP entered into the overdraft facility agreement with HSBC Bank Kazakhstan in order to draw USD 2 mln for operating needs. The effective period of the agreement is until May, 2012.

5. Recent/Subsequent events

After 31 December 2011, the Group has undertaken the following upgrades and developments:

a) *Caspi Limited LLP, Atyrau*

Townhouses – completed in March 2012.

b) *Joint venture with ADM, Atyrau and Almaty*

In January 2012 a joint venture was agreed with a leading international fund manager ADM Capital through its ADM Kazakhstan Capital Restructuring Fund ("ADM KCRF") for development of projects in Kazakhstan. The majority of this joint venture will be held by the ADM KCRF fund and will look to deploy up to USD 60 mln focused on the development of commercial and residential properties in Kazakhstan. To date, initial projects have been identified in Atyrau and Almaty. Further projects will be sought where the joint venture identifies special situations where it can create value. Deployment of capital is expected in the first quarter of 2012.

c) *Caspi Limited LLP, Atyrau*

Placement of the Kazakh tenge denominated bonds through Kazakhstani Stock Exchange in the amount of $15 mln.

6. Responsibility statement

To the best of my knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

(b) the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Should there be any questions on the above please feel free to contact myself or our Chief Financial Officer, Yermek Kudabayev.

Francisco Parrilla
Chief Executive Officer