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 2014 and Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2014 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 15April 2014.

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 most high profile hydrocarbon exploration and production areas worldwide. In particular, the Group provides residential and business accommodation, office space, associated catering, leisure facilities and warehousing and logistics support to the major companies involved in the oil and gas industry in Kazakhstan.

Kazakhstan Economy

Kazakhstan expects that oil production from the giant Kashagan Caspian oil will resume at the end of 2015, or in 2016.

Production at Kashagan was stopped September 2013, two weeks after the start because of a gas leak. Almost immediately after the resumption of production in October 2013 another leak was discovered. The analysis, which was conducted over several months, revealed the presence of numerous micro-cracks in the pipeline that have emerged as a result of exposure to the metal associated gas with high sulphur content. The operator of the project consortium North Caspian Operating Company (NCOC) in April 2014 confirmed the need for complete replacement of gas and oil pipelines in the field, whose total length is about 200 kilometres. The recovery programme presented by the consortium together with KazMunaiGaz has an estimated cost of two billion dollars, and it is expected to be fully completed at the end of 2015or in 2016.

The project involves "KazMunayGas" (KMG), Eni, ExxonMobil, Royal Dutch Shell, Total, Inpex and CNPC. The geological reserves of Kashagan are estimated at 4.8 billion tons of oil. Total oil reserves are 38 billion barrels of recoverable them - about 10 billion barrels of natural gas reserves - more than 1 trillion cubic meters. The total investment in the project to date is approximately $ 50 billion.

Chagala Group continues to push ahead with non-traditional business lines for Chagala. In December 2014, the first block of four of the Saraishyk apartment complex was put into operation and Chagala continued with construction of the Supermarket project. In March 2015, Chagala announced the completion of construction on its supermarket project in Atyrau. The supermarket is located at Chagala's development site and is another step forward in realizing the property's full potential. The construction of the 2,000 m2 building took nine months to complete and had already been pre-leased to Ideal, a medium scale supermarket and grocery stores in Kazakhstan. The project was completed in conjunction with Chagala's joint venture partner ADM Capital and its Kazakhstan Capital Restructuring Fund.

The devaluation of KZT took place on 11 February 2014 after the National Bank of Kazakhstan took a decision not to maintain the Tenge exchange rate at the same level, reduce the volume of currency interventions and decrease participation in the formation of Tenge exchange rate. The National Bank set an exchange rate band of the Tenge versus the US Dollar within the new rate of KZT 185 per 1 US Dollar +/- 3 KZT, widened in September to +3/-15 KZT. Since borrowings held by the Group are dominated in KZT while approximately 40% of the Group's revenue is in US Dollars, the impact of KZT devaluation was reduced.

Key operational highlights

Key operational highlights include:

- January 2014 — the Group repurchased shares in the total amount of USD 236 thousand under Share Repurchase program.
- February 2014 — the Group incorporated a joint venture Compass Chagala Holding B.V. (or "CCH B.V.") with Compass Offices Management Limited. CCH B.V. is a legal entity established under the laws of the Netherlands with the main activity being the operation of hotels and restaurants as well as the real estate. The Group has a 49% interest in CCH B.V.
- February 2014 — the Group increased its aggregate interest in Itasia up to 49% through a cash contribution of USD 45 thousand.
- February 2014 — Kazakhstan's Central Bank has announced the new exchange rate is 185 KZT for 1 USD (up from 155 KZT for 1 USD).
- October 2014 — the Group entered into a general agreement Murabaha for the purchase and sale of Murabaha goods with Islamic Bank Al-Hilal JSC to open two credit lines.
- October 2014 — the Group fully refinanced the borrowings from HSBC Bank Kazakhstan
- December 2014 — The JV with ADM completed construction on the Saraishyk apartment and put it into operation.

Operating results, comments on the period of 2014 compared to 2013

1.1 Operating revenue and profit

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

In thousands of US Dollars	**Year 2014**	**Year 2013**	**% Change**
Room and rent revenue	20,658	23,923	-13.6%
Food and beverages revenue	5,225	7,110	-26.5%
Other operating revenue	2,282	2,556	-10.7%
TOTAL REVENUE	**28,165**	**33,589**	-16.1%
Utilities, cleaning and maintenance	5,018	5,933	-15.4%
Costs of food and beverages	1,581	2,307	-31.5%
Salaries and employee benefits	8,342	9,606	-13.2%
General and administrative expenses	3,665	4,132	-11.3%
EBITDA	**9,559**	**11,611**	**-17.7%**
Depreciation and amortization	5,253	6,380	-17.7%
OPERATING PROFIT	**4,306**	**5,231**	**-17.7%**

2014 sales were still influenced by the unresolved issues surrounding the Kashagan project, as well as by devaluation of Kazakhstan tenge.

Major decrease in revenues in 2014 as compared to 2013 comes from food and beverage sales. Decline is connected with closure of Hugo's restaurant at the end of August 2014, as well as with decrease of the number of customers and activity in Kashagan. Drop in food and beverage revenues affected the decline in food and beverage costs as well.

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 decreased from USD 33,589 thousand during the twelve months ended 31 December 2013 to USD 28,165 thousand during the twelve months ended 31 December 2014. This 16,1% decrease resulted mainly from devaluation and lower food and beverage sales.

<u>Room and rent revenue</u>

Room and rent revenue decreased from USD 23,923 thousand during 2013 to USD 20,658 thousand during 2014.

In thousands of US Dollars	Year 2014	Year 2013
Hotel and serviced apartments	10,028	12,132
Offices rent	8,529	9,309
33 Townhouses	2,101	2,482
TOTAL	**20,658**	**23,923**

The Group's on-going diversification strategy which intends to capture more customers from banking, audit, FMCG and pharmaceutical companies led to increase of average Hotel occupancy rate. Cross-sales policy in combination with dynamic pricing policy in Aktau and Uralsk allowed to increase revenues due to additional sales volume.

Nevertheless, a sustained decrease of serviced apartments leased to NCPOC in Atyrau significantly affected the total revenue produced.

Office rent revenue went downby USD 780 thousand (9,1%), mainly due to the reduction of leased offices NCPOC in Atyrau.

1.2.1 Food and beverage revenue

Food and beverage revenue decreased from USD 7,110thousand during the twelve months ended 31 December 2013 to USD 5,225 thousand during the twelve months ended 31 December 2014. This decrease of 26.5% was mainly due to closure of Hugo's restaurant at the end of August, as well as with decrease of the number of customers due to the slowdown in Kashagan in Atyrau.

1.2.2 Other operating revenue

Other operating revenue decreased from USD 2,556thousand during 2013 to USD 2,282 thousand during 2014 as a result of the following:

In thousands of US Dollars	Year 2014	Year 2013
Laundry	381	522
Maintenance services	45	58
Facilities management	0	151
Membership fee (Sport & Leisure)	281	301
Other	1,575	1,524
TOTAL	**2,282**	**2,556**

- Laundry revenue decreased due to lower occupancy of the hotels and serviced apartments.
- Facility management services contract was cancelled in December 2013.
- Other revenues increased mainly due to the full year of management service contracts with associated companies.

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 decreased from USD 5,933 thousand during the twelve months ended 31 December 2013 to USD 5,018 thousand during the twelve months ended 31 December

2014. This 15,4%decrease was increased by the following factors: decrease of security costs and adjustment of inventory amortisation.

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 2,307 thousand during the twelve months ended 31 December 2013 to USD 1,581 thousand during the twelve months ended 31 December 2014. This decrease of 31.5% is primarily due to the decrease of sales of food and beverages by 26.5%. The 2014 total beverage margin is significantly higher to that in 2013 due to renegotiation of supplies and sales prices stated in contracts. The total food and beverage margins (costs as % of revenue) were as follows:

In thousands of US Dollars	**Year 2014**	**Year 2013**
Food Revenue	4,430	6,058
Food Costs	1,376	1,952
Food costs as % of Food revenue	31.1%	32.2%

In thousands of US Dollars	**Year 2014**	**Year 2013**
Beverage Revenue	795	1,052
Beverage Costs	205	355
Beverage costs as % of Beverage revenue	25.8%	33.7%

1.3.3 Salaries and employee benefits

This includes 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 9,606 thousand during the twelve months ended 31 December 2013 to USD 8,342 thousand during the twelve months ended 31 December 2014. This 13.2% decrease was primarily the result of the following:

- Devaluation of currency;
- Decrease of number of employees due to operational efficiencies despite of increase in operations (*number of the Group's employees at the end of 31 December 2014 and 2013 were 554 and 597, respectively);*

The reduction of staff did not lead to a proportional reduction of costs due to:

- Continuing program for raise of staff qualification as resulted in increased training costs;
- Long-term incentives paid to eligible employees, including the senior management.

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 2014**	**Year 2013**
Taxes, duties and fees (mainly property tax)	1,604	1,657
Audit and valuation costs (incl. other professional fees)	981	1,137
Communication	272	323
Marketing	151	214
Insurance	128	175

Bank charges	111	130
Utilities, cleaning and maintenance overhead	92	115
Printing&Stationary	87	93
Travel	134	88
Other	107	202
TOTAL	**3,665**	**4,132**

General and administrative expenses decreased from USD 4,132 thousand during the twelve months ended 31 December 2013 to USD 3,665 thousand during the twelve months ended 31 December 2014. This 11.3% decrease is mainly as a result of the devaluation of currency; although the total reduction was not as large as expected due to higher property tax following an increase of fair value of Bautino hotel properties.

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 decreased from USD 6,380 thousand during the twelve months ended 31 December 2013 to USD 5,253 thousand during the twelve months ended 31 December 2014. This 17.7% decline is mainly due to the currency devaluation.

2. Net results, comments on the period of 2014 compared to 2013

2.1 Non operating results

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

In thousands of US Dollars	**Year 2014**	**Year 2013**	**% Change**
Operating Profit	**4,306**	**5,231**	**-17.7%**
Net foreign currency translation loss	(134)	(78)	-71.8%
Impairment of capital work-in-progress, goodwill and intangible assets	-	(97)	-
Revaluation of land and buildings	(876)	-	-
Loss on disposal of property, plant and equipment	(8)	(69)	-88.4%
Gain on disposal of land contribution to associate	1,740	-	-
Finance income	26	332	-92.2%
Finance expenses	(2,424)	(3,660)	-33.8%
Other income	46	-	-
Other expenses	(444)	(482)	-7.9%
Share of loss of associates	(263)	(66)	-298.5%
Profit / (loss) before income tax	**1,969**	**1,111**	**77.2%**
Income tax (expense) / benefit	(601)	(697)	13.8%
Net profit / (loss) for the year	**1,368**	**414**	**230.4%**

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 Group and its subsidiaries is Kazakh Tenge (“KZT”) while all items included in the financial statements of each entity are measured using that functional currency.

KZT is not a fully convertible currency outside the territory of the Republic of Kazakhstan. The Group used exchange rates of KZT to the U.S. Dollar established by the National Bank of the Republic of Kazakhstan. Below is an overview of foreign exchange rates of the KZT 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**
2014	182,35	179,19
2013	153,61	152,14
2012	150,74	149,11

Net foreign currency translation loss of USD 134 thousand in 2014 formed mainly from trade receivables / payables, the same as in 2013.

2.1.2 Impairment of property, plant and equipment

The Group assessed whether property, plant and equipment are impaired. The Group engaged an independent appraiser, Veritas Brown Cushman Wakefield Valuations, to determine the fair value of its land and buildings at 31 December. The Uralsk Hotel and Aktau Hotel properties were the only assets that had a significant revaluation in 2014on the basis of the forecasted cash flows from the properties.

The Group recognized impairmentof the following assets:

In thousands of US Dollars	**Year 2014**	**Year 2013**
Impairment of buildings	876	-
Impairment of capital work in progress	-	97
Impairment of goodwill	-	-
Other impairments	-	-
TOTAL	**876**	**97**

In 2014 the Group recognized reversal of impairment for Uralsk hotel to the amount of USD 575 thousand, as well as impairment of Aktau hotel to the amount of USD 1,381 thousanddue to re-assessment of the existing market situation and issues surrounding the Kashagan project.

			(A)	**(B)**		**(A) - (B)**
Hotel building	76 rooms	Atyrau	6,107	7,652	-	1,545
Apartments buildings	226 apartments	Atyrau	13,029	15,776	-	2,747
Apartments building (Ural Residence)	108 apartments	Atyrau	10,005	12,114	-	2,109
33 Townhouses	33 townhouses	Atyrau	9,006	10,945	-	1,939
Office buildings	12,219 m2	Atyrau	19,092	23,077	-	3,985
Hotel building	83 rooms	Aktau	909	2,487	-	1,578
Hotel building	147 rooms	Bautino	10,361	12,405	-	2,044
Residential Commercial Park	56 rooms	Bautino	-	-		-
Hotel building	49 rooms	Uralsk	1,215	1,460	-	245
Apartments building	41 apartments	Uralsk	2,556	2,982	-	426

Residential camp	125 rooms	Aksai	2,517	3,155	-	638
Office building		Almaty	781	977	-	196
Land plots			16,341	18,440	-	2,099
Other properties			10,545	11,461	-	916
TOTAL			**102,465**	**122,931**	**-**	**20,466**
Reflected as an impairment loss					-	
Reflected as an increase of revaluation reserves					-	20,466

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 Gain on disposal of land contributed to associate

The Group recorded the gain on disposal of land contributed to Arrowhead BV in the amount of USD 1,740thousand in 2014which resulted from the difference between carrying value of the land contributed and its fair value reduced.

2.1.4 Finance income / (expenses)

Finance expenses represent interest accrued on borrowings and unwinding of bond discount as follows:

In thousands of US Dollars	**Year 2014**	**Year 2013**
Interest expense on borrowings	2,211	3,377
Amortisation of loan arrangement fees	-	-
Unwinding of bond discount	205	212
Other	8	71
TOTAL	**2,424**	**3,660**

Interest expenses on borrowings include interest on overdraft facilities, interest on credit facility granted by Kazinvestbank to Caspi Limited LLP, interest on bonds placed by Caspi Limited LLP and interest on loan facilities granted by Kazinvestbank, HSBC Bank Kazakhstan, Al Hilal banks and interest on swap agreements. The interest expenses are lower in 2014 mainly due to repayment of HSBC loan and closing of SWAP agreements.

In October 2014 Caspi Limited LLP entered into a general agreement Murabaha for the purchase and sale of Murabaha goods with Islamic Bank Al-Hilal JSC to open two credit lines. The first revolving credit line was USD 2,500,000 to finance working capital requirements. The Murabaha profit is fixed to 7% for facilities denominated USD and to 8% for facilities denominated in KZT. The second credit line was USD 7,500,000 to finance capital investments requirements and USD 440,000 to refinance a loan in HSBC Kazakhstan JSC. The Murabaha profit is a one year LIBOR plus 5%, but minimum is 7.5% for credit facilities denominated in USD and one year LIBOR plus 7%, but minimum 8% for credit facilities denominated in KZT. Caspi Limited LLP received credit facilities in KZT during 2014.

In November 2014, the Caspi Limited LLP received a loan from Islamic Bank Al-Hilal JSC within a second limit to finance a purchase of land plot. Credit facility equals to KZT 381,000 thousand, with the maturity date in November 2019 and fixed Murabaha premium 8%. In 2014 it was fully drawn. The grace period for this loan is twelve months from the date of loan receipt and commences in the last quarter of 2015.

2.2 Profit / (loss) before income tax

As a result of the factors described above, profit before income tax increased from profit of USD 1,111thousand during 2013 to profit of USD 1,969 thousand during 2014. The major reason for this increaseis gain from disposal of land contributed to Arrowhead BV.

2.3 Income tax

The 2014 income tax expense includes current income tax expense in the amount of USD 181 thousand and deferred tax expense in the amount of USD 420 thousand.

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 2014**	**Year 2013**
Current income tax expense	181	277
Under/overprovided DTA for prior period	(48)	-
Deferred income tax expense / (benefit), net	468	420
Income tax (expense) / benefit	**601**	**697**

In thousands of US Dollars	**Year 2014**	**Year 2013**
Income / (loss) before taxation	1,969	1,111
Theoretical tax charge / (benefit) at statutory rate of 20%	394	222
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impairment of capital work in progress and goodwill	0	0
Unrecognized deferred tax assets	0	0
DTA underprovided in prior periods	(48)	
Non-taxable expenses of the Parent	(24)	129
Non-deductible tax losses	0	0
Other non-deductible expenses	279	346
Income tax expense / (benefit)	**601**	**697**
Deferred income tax expense / (benefit)	420	420
Current income tax expense	**181**	**277**

Deferred income tax expense mainly represents a temporary difference between accounting and tax depreciation where for tax purposes depreciation is calculated based on initial costs of property, plant and equipment and no valuation or impairment is taken into consideration.

Movements in deferred tax balances were as follows:

In thousands of US Dollars	**Year 2014**	**Year 2013**
1 January	(7,080)	(6,676)
Recognised in Consolidated income statement:		
Deferred income tax (expense) / benefit, net	(420)	(420)
	(420)	**(420)**
Recognised in Consolidated Statement of changes in equity:		
Deferred tax due to revaluation of property, plant and equipment	(404)	(109)
	(404)	**(109)**
Foreign currency translation	1,113	125
31 December	**(6,791)**	**(7,080)**

2.4 Net (loss) profit for the year

As a result of the above, during the twelve months ended the 31 December 2014 the Group earned a net profit of USD 1,368 thousand compared to a profit of USD 414 thousand during the twelve months ended the 31December 2013.

The earnings per share increased to USD 0.017 for 2014 from earnings per share of USD 0.007 for 2013. The number of shares (4 shares = 1 GDR) outstanding is 85,025 thousand as at 31 December 2014 (as at 31 December 2013: 85,027 thousand).In January 2014, following to Share Repurchase program, the Group repurchased 186,020 GDRs and 97,068 shares for USD 40 thousand paid by cash and USD 196 thousand offset against a liability to the Group.

3. Assets

3.1 Non-Current Assets

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

In thousands of US Dollars	**31 December 2014**	**31 December 2013**	**% Change**
Property, plant and equipment	100,006	128,773	-17.4%
Investment property	6,310	-	-
Intangible assets	161	104	54.8%
Capital work in progress	1,658	764	117.0%
Long term prepayments	201	74	171.6%
Due from related parties	905	427	111.9%
Investment in an associate	5,269	1,335	294.7%
Restricted cash	13	28	-53.6%
Deferred tax asset	257	649	-60.4%
Non-Current Assets	**114,780**	**132,154**	**-13.1%**
Non-current assets held for sale	**-**	**2,609**	**-**

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 2014**	**31 December 2013**
Land	10,038	16,140
Buildings	84,889	104,182
Furniture and equipment	5,079	8,451
TOTAL	**100,006**	**128,773**

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

In thousands of US Dollars	**Year 2014**	**Year 2013**
Revaluation and impairment	1,143	546

Disposals and depreciations	(5,356)	(7,211)
Purchase of new furniture and equipment, including additions to buildings	3,034	1,960
Transfers to investment property	(6,310)	-
Transfers to assets held for sale	-	(2,609)
Translation reserve / Foreign exchange translation difference	(20,384)	(2,539)

Fair value of land is determined 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.

In thousands of US dollars

Land and buildings incl. Non-current assets held for sale	**Location**	**Fair value as at 31 December 2014**	**Fair value as at 31 December 2013**
Caspi Limited LLP			
Offices	Atyrau	18,346	23,077
Apartments	Atyrau	23,034	27,890
Townhouses	Atyrau	9,006	10,945
Hotels	Atyrau	6,107	7,652
Other facilities	Atyrau	7,606	9,302
Land	Atyrau	13,078	10,830
Subtotal		***77,569***	***89,696***
Aktau Development Company LLP			
RCP	Bautino	-	-
Hotels	Bautino	10,361	12,405
Hotels	Aktau	907	2,487
Other facilities	Aktau and Bautino	2,344	1,467
Land	Aktau and Bautino	1,392	5,569
Subtotal		***15,236***	***21,928***
Bayan Limited LLP			
Apartments	Uralsk	2,461	2,982
Hotels	Uralsk	1,170	1,460
Other facilities	Uralsk	167	208
Land	Uralsk	731	867
Subtotal		***4,529***	***5,517***
Chagala Aksai LLP			
Apartments	Aksai	2,832	3,155
Other facilities	Aksai	116	431
Land	Aksai	596	708
Subtotal		***3,544***	***4,294***
Chagala Management LLP			
Office	Almaty	781	977
Other facilities	Almaty	42	53
Land	Almaty	393	466
Subtotal		***1,216***	***1,496***
TOTAL		**102,465**	**122,931**

All other equipment is measured at cost less accumulated depreciation and impairment charges.

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.

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 the years:

In thousands of US Dollars	**Year 2014**	**Year 2013**
Additions	1,202	393
Impairment reversal through previously recognized impairment losses		
Impairment		(97)
Disposals		(28)
Capital repair / new assets put into operations (transfers from CIP)	(167)	(315)
Foreign exchange translation difference	(141)	(16)

Capital work in progress is related mainly to the Social Club and Central Store in Atyrau, which are expected to be completed in 2015. The carrying amount of capital work-in progress as at 31 December is as follows:

In thousands of US Dollars	**31 December 2014**	**31 December 2013**
Caspi Limited LLP		
Social Club	772	-
Central store	119	-
New office building	615	748
Other	152	16
TOTAL	**1,658**	**764**

3.1.3 Long term prepayments

Long term prepayments as at 31 December 2014in the amount of USD 201 thousand are mainly related to other projects planned in Atyrau (as at 31 December 2013: USD 74 thousand).

3.1.4 Due from related parties

Due from related parties include repair and construction works prepayments to Itasia Engineering made by Caspi Limited LLP and Chagala Management LLP.

3.1.5 Investments in associates

Arrowhead B.V.

The Group has a 30% interest in Arrowhead B.V. (or “ABV”), which is involved in the development of commercial and residential properties in the Republic of Kazakhstan. ABV is a legal entity established under the laws of the Netherlands. In 2012 ABV created two subsidiaries, 100% owned by the entity:

Flecha LLP was created on 11 September 2012 with its main activity in Atyrau; Crossbow LLP was created on 16 April 2012 with its main activity in Almaty. Flecha LLP main projects are Saraishyk Residential Complex and supermarket development in Atyrau. The Complex is located near Chagala properties and comprises 4 blocks of two and three bedroom apartments covering the area circa 14,000 square meters. The apartment block was finished in September 2014. The supermarket was finished in March 2015.

Crossbow LLP has completed the purchase of an existing office building in Almaty. The six floor building contains 5,156 square meters of useable 'A' class office space and was fully leased to external clients.

During 2014 the Group increased its investments in Arrowhead B.V. by USD 4,710 thousand (2013: USD 1,452 thousand) by contribution of land with a carrying amount of USD 2,224 thousand, recognising a gain of USD 1,740 thousand, which represents the difference between carrying value of the land contributed and its fair value reduced by the proportion of the Group's interest in ABV.

Itasia Engineering LLP

The Group has a 49% interest in Itasia Engineering LLP (or "Itasia"), which is involved in the construction of properties and provision of capital repair services for the Group. Itasia is a legal entity established under the laws of the Republic of Kazakhstan.

In 2014 Itasia incurred net losses and total comprehensive loss, of which the share of the Group constituted USD 5 thousand, which reduced the value of investment to zero (2013: USD 34 thousand). As at 31 December 2014 the amount of unrecognized Group's share of Itasia's net losses equals to USD 39 thousand (2013: USD 34 thousand).

3.1.6 Non-current assets held for sale

As at 31 December 2014 the Group further increased the investments in Arrowhead B.V. by the way of additional property (land) contribution in its charter capital. The land plot with the area of 2,722ha is located in Atyrau with the carrying amount of USD 2,224 thousand.

3.2 Current Assets

The following table represents the overview of current assets as at 31 December:

In thousands of US Dollars	**31 December 2014**	**31 December 2013**	**% Change**
Inventories	2,829	3,163	-10.6%
Trade receivables	2,729	3,680	-25.8%
Taxes prepaid	426	1,387	-69.3%
CIT prepaid	1,012	1,241	-18.5%
Other assets	562	449	25.2%
Cash and cash equivalents	2,522	1,875	34.5%
Due from related parties outside the Group	757	103	635.0%
Current Assets	**10,837**	**11,898**	**-8.9%**

3.2.1 Inventories

Inventories decreased from USD 3,163 thousand as at 31 December 2013 to USD 2,829 thousand as at 31 December 2014 mainly due to the currency devaluation effect.

3.2.2 Trade receivables

Trade accounts receivable declined from USD 3,680 thousand as at 31 December 2013 to USD 2,729 thousand as at 31 December 2014. This 25.8% decline is mainly explained by devaluation and there are no major changes in the structure of receivable amounts.

The majority of the Group's trade receivables as at 31 December 2014 are KZT denominated (as of 31 December 2013: KZT). The biggest share of trade receivables are from NCPOC representing 64% (54% in 2013).

3.2.3 Taxes prepaid

The major part of taxes prepaid represents recoverable VAT. As at 31 December 2014 recoverable VAT decreased by 42,3% due to the sale of Aktau lands which decreased the accumulated losses of Aktau Development Company and, therefore, led to substantial reduction of recoverable VAT.

3.2.4 Other assets

Balance of other assets represent prepayments for goods and services required for providing the operational services for hotels, apartments, offices, restaurants and other facilities and presents no major changes compared to 2013.

4. Liquidity and capital resources

4.1 Liquidity

The Group's primary source of liquidity is provided by the Group's operating activities. The Group's capital resources consisted primarily of funds borrowed from banks and the sale of services. As at 31 December 2014 the Group had cash of USD 2,522 thousand. The Group earned a net profit of USD 1,368 thousand and USD 0,414 thousand for the year ended 31 December 2014 and 2013, respectively. The Group's current assets exceeded current liabilities by USD 2,971 thousand and USD 3,345 thousand as at the year ended 31 December 2014 and 2013, respectively.

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

In thousands of US Dollars	**Year 2014**	**Year 2013**
Net cash from operating activities	6,961	10,486
Net cash used in investing activities	(3,641)	(1,947)
Net cash from financing activities	(2,923)	(7,424)
NET INCREASE / (DECREASE) IN CASH	**397**	**1,115**

4.1.1 Net cash from operating activities

In 2014 net cash provided by operating activities was USD 6,961 thousand compared to net cash provided by operating activities of USD 10,486 thousand in 2013. This decrease in net cash provided by operating activities occurred primarily due to currency devaluation effect.

4.1.2 Net cash used in investing activities

The cash outflow from investing activities mainly represents the investments into construction of Shell Club and Central Store in Atyrau to the amount of USD 1,202 thousand. Other changes are due to regular investments in fixed assets and buildings maintenance.

4.1.3 Net cash from financing activities

Net cash used in financing activities during the twelve months ended 31 December 2014 was USD 2,923 thousand compared to net cash used in financing activities in the amount of USD 7,424 thousand in 2013.

The outflow from financing activities in 2014 decreased as the Group raised capital form Al Hilal bank for the purpose of refinancing HSBC bank loan, as well as for future capital expenditures. Additionally, the Group opened revolving credit line with Al Hilal bank for the purpose of working capital financing. The total amount raised is USD 3,582 thousand.

4.2 Current Liabilities

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

In thousands of US Dollars	Year 2014	Year 2013	% Change
Current portion of long-term borrowings	2,752	4,593	-40.1%
Derivative financial instruments	0	100	-100.0%
Short term borrowings (overdraft facility)	1,460	0	
Interest payable	196	282	-30.5%
Trade accounts payable	1,681	1,360	23.6%
Advances from customers	321	579	-44.6%
Taxes payable	546	844	-35.3%
CIT payable	0	0	
Due to related parties	386	25	1444.0%
Other payables and accruals	524	770	-31.9%
Current Liabilities	**7,866**	**8,553**	**-8.0%**

Current liabilities primarily consisted of the current portion of long-term borrowings, short-term borrowings, trade accounts payable, and taxes payable.

In October 2014 Caspi Limited LLP entered into a general agreement Murabaha for the purchase and sale of Murabaha goods with Islamic Bank Al-Hilal JSC to open revolving credit line of USD 2,500,000 to finance working capital requirements. The Murabaha profit is fixed to 7% for facilities denominated USD and to 8% for facilities denominated in KZT.

Trade accounts payable are represented by 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, advances from customers, other payables and accruals were relatively at the same level during 2014 and 2013.

4.3 Non-current Liabilities

As at 31 December 2014 and 2013, the non-current liabilities were USD 23,105 thousand and USD 29,807 thousand, respectively. Decrease of USD 6,702 thousand is explained mainly by the devaluation, the repayment of long term borrowings and closing of swaps agreements during 2014.

4.4 Capital resources

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

As at 31 December 2014 the Group had no material contractual commitments for the purchase of property, plant and equipment from third parties (31 December 2013: no).

The Group's management is aware of the fact that Kazakhstan economy is vulnerable to market 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 relations with the oil and gas sector and having some 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 and future devaluation could affect the Group's medium term (2-3 years) and long term (over the next 4-5 years) plans.

4.4.2 Borrowings

Islamic Bank Al-Hilal JSC

In October 2014, Caspi Limited LLP entered into a general agreement Murabaha for the purchase and sale of Murabaha goods with Islamic Bank Al-Hilal JSC to open two credit lines. The first revolving credit line was USD 2,500,000 to finance working capital requirements. The Murabaha profit is fixed to 7% for facilities denominated USD and to 8% for facilities denominated in KZT. The second credit line was USD 7,500,000 to finance capital investments requirements and USD 440,000 to refinance a loan in HSBC Kazakhstan JSC. The Murabaha profit is a one year LIBOR plus 5%, but minimum is 7.5% for credit facilities denominated in USD and one year LIBOR plus 7%, but minimum 8% for credit facilities denominated in KZT. Caspi Limited LLP received credit facilities in KZT during 2014.

In November 2014, the Caspi Limited LLP received a loan from Islamic Bank Al-Hilal JSC within a second limit to finance a purchase of land plot. Credit facility equals to KZT 381,000 thousand, with the maturity date in November 2019 and fixed Murabaha premium 8%. In 2014 it was fully drawn. The grace period for this loan is twelve months from the date of loan receipt and commences in the last quarter of 2015.

As at 31 December 2014 the credit facilities are secured as follows:

- Pledged immovable properties with a carrying amount of KZT 1,930 million;
- Corporate guarantee issued by Chagala International Holding B.V.

Kazinvestbank JSC

In September 2011, Caspi Limited LLP signed an agreement with Kazinvestbank JSC to open a KZT denominated non-revolving credit facility of KZT 1,400 million for financing the construction of townhouses with maturity date September 2016. The interest rate for the first year is fixed at 9.5%, and the interest rate for the subsequent periods is defined as refinancing interest rate of National Bank of RK (refinancing interest rate) plus 2%, but in total not exceeding 12%. In 2014 the effective interest rate was 10.1% (2013: 9.85%).

Additionally, in November 2012 the Caspi Limited LLP along with Aktau Development Company and Bayan Limited (subsidiaries of Chagala Group Limited) signed a joint agreement with Kazinvestbank JSC to open a KZT denominated non-revolving credit facility of KZT 761 million (where KZT 117 million was allocated to the Company) with maturity date of November 2016. The purpose of the credit facility is refinancing of the borrowings from HSBC Bank and Raiffeisen Bank. The interest rate for the first year is fixed at 9.5%, and the interest rate for the subsequent periods is defined as refinancing interest rate plus 4%. In 2014 the effective interest rate was 10.9% (2013: 10.84%).

As at 31 December 2014 the credit facilities are secured as follows:

- Pledged immovable properties with a carrying amount of USD 27,502 million;
- Assigned demand of receivables under existing contracts and future cash flows from the sale of services under existing contracts for the amount of KZT 1,100 million (USD 5,994 thousand);
- Corporate guarantee issued by Chagala Group Limited.

HSBC Bank Kazakhstan

In December 2012, Caspi Limited LLP, Aktau Development Company and Bayan Limited concluded a joint agreement with HSBC Bank Kazakhstan to open a KZT denominated non-revolving credit facility for the amount of KZT 759 million (equivalent to USD 4,941 thousand) with maturity date December 2015. The purpose of the credit facility is refinancing of the borrowings from HSBC Bank and Raiffeisen Bank. In 2012 it was fully drawn. The interest rate is defined as refinancing interest rate plus 4%. In 2013 the effective interest rate was 10.77% (2012: 10.77%).

As at 31 December 2013 the credit facility was secured by pledged immovable properties with a carrying amount of USD 12,805 thousand. In 2014 the Group refinanced this loan.

Bonds payable

In March 2012 the Company announced the placement on the Kazakhstan market of a 5-year KZT denominated bond in the amount of KZT 2,250 million with a coupon rate of 10% per annum. The principal amount is payable in December 2016 and the interest is payable in semi-annual instalments. As at 31 December 2014, the amount of unamortized discount related to this bond is USD 468 thousand.

The bond proceeds were used for financing construction of residential and commercial real estate in the Republic of Kazakhstan, as well as for repayment of some liabilities to creditors, including the credit facility with HSBC Bank and Raiffeisen Bank.

Short-term borrowings

In November 2014 the Company received a loan from Islamic Bank Al-Hilal JSC within a second credit limit to refinance a loan from HSBC Bank Kazakhstan JSC in the amount of KZT 81,200 thousand. In 2014 it was fully drawn. The maturity date for this credit facility is November 2015 and Murabaha profit equals to 1 year LIBOR plus 7%, but minimum 8%.

Further, the Company received a loan from Islamic Bank Al-Hilal JSC within a first credit limit to finance working capital requirements in the amount of KZT 185,000 thousand, maturity date in December 2015 and fixed interest rate 8%. In 2014 it was fully drawn.

Long-term loans and borrowings are repayable as follows:

In thousands of US Dollars	**31 December 2014**	**31 December 2013**
Maturity up to 1 year, including interest payable	2,948	4,875
Total current portion	**2,948**	**4,875**
Maturity between 1 and 2 years	14,622	5,581
Maturity between 2 and 5 years	1,435	16,497
Maturity over 5 years	-	-
Total long-term portion	**16,057**	**22,078**
Total long-term borrowings	**19,005**	**26,953**

5. Recent/Subsequent events

After 31 December 2014, the Group has undertaken the following upgrades and developments:

- In January 2015 Company has announced that the Portola Group Limited has purchased an additional 850,000 GDRs.
- On 22 January 2015 the Company has received notification that Sturgeon Central Asia Fund, an investment fund managed by Sturgeon Capital Limited has disposed of 150,000 Company GDRs representing 600,000 common shares at an average price of USD 1.15, and, concurrently, that Sturgeon Central Asia Equities Fund, another fund managed by Sturgeon Capital Limited acquired 199,022 GDRs in the Company representing 796,088 common shares at an average price of USD 1.15
- In March 2015 the Company has announced the completion of construction on the Supermarket project in Atyrau.
- In March 2015 Caspi Limited LLP received a credit facility from Islamic Bank Al-Hilal JSC in the amount of USD 550,000 with a maturity date in March 2016 and annual fixed rate 8%.
- In March 2015 the Company and its subsidiaries signed a license agreement for five years, where the Company is liable to pay to Chagala Group Limited for using the “Chagala” logo and trademarks.
- In April 2015 the Company and Social Enterprising Corporation Urals JSC jointly established a limited partnership Kurmangazy-Development. Group’s and Social Enterprising Corporation Urals JSC are holding 70% and 30%, accordingly.
- In April 2015 Kazinvestbank JSC increased interest rate for the Group from 9.5% to 11% for credit facilities denominated in KZT.

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.

Francisco Parrilla
Chief Executive Officer