MANAGEMENT DISCUSSION AND ANALYSIS

This Management 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 2015 and Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2015 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 Discussion and Analysis ("MD&A") reflects information known to management as at 20 June 2016.

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 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's economy expanded 1.2% in 2015 as a whole, which marked a notable deceleration compared to the 4.1% increase registered in 2014 and represented the slowest growth rate since 2009. Kazakhstan was significantly impacted last year by a deep recession in Russia, lower commodity prices and harsh financial conditions. The delay of the Kashagan oil project production and the resulting drop in anticipated oil production added to the downward pressure.

Kazakhstan's Government responded to the collapse of global oil prices with a series of anti-crisis measures, a rapid fiscal adjustment, followed by corresponding monetary and exchange rate policy adjustments, and roll out a structural reform agenda (the "Hundred Steps"). In August 2015, the authorities decided to move to a floating exchange rate and shift the country's monetary policy to an inflation-targeting regime. The tenge lost a third of its value against the US dollar by the end of October 2015 and almost 50% by the end of the year, closing out 2015 at a record low.

So far, labor market and poverty reduction outcomes do not seem to have been affected by the downturn – thanks to continued job creation, intersectoral and geographic mobility, and new employer "social arrangements." Unemployment in the country is estimated at 5% of the eligible workforce in 2015, a slight drop from 5.2% in 2014. The population was estimated at 17.651 million at year end 2015.

The projections for the Kazakh economy are that it will expand by 2.1% in 2016, although the World Bank has cut its forecasts to 1.1%. The Government reported GDP growth stood at 1.2% in 2015, whereas the World Bank forecasts it to have grown by 0.9%. Inflation for the year has been estimated at 13.6%. Oil and gas condensate production in Kazakhstan in 2015 amounted to 79.46 million tons. In 2014, Kazakhstan produced 80.8 million tons of oil and condensate. Thus, as it was expected by local and international experts the production decreased by 1.7% in 2015. Repair works on Kashagan are reported to go according to the schedule. In autumn 2016, the project plans to resume its production activity with up to 75 000 barrels per day.

Karachaganak is still one of the best and most attractive oil and gas projects in the world. In 2015 the project produced 141.7 million barrels of oil and had 20.6 millions of investments. Currently the project continues to implement a concept of further development. Capacity of gas injection will provide an increase of liquid hydrocarbons up to 166 million tons and possibility of stable gas in long run. Works of this concept will be finished in 2017 and will be put in operation in 2022. Also Karachaganak is still one of the successful projects, where the program of Kazakh content development was successfully implemented – last year a series of contracts on $118 million aimed at the development of local content in the project was signed.

In 2015, total recoverable crude oil in the Tengiz and Korolev fields is estimated to be 750 million to 1.1 billion metric tonnes (6 to 9 billion barrels). Estimated oil in place in the Tengiz field is 3 billion metric tons (25 billion barrels) with 190 million metric tons (1.5 billion barrels) in the Korolev field. The areal extent of the Tengiz reservoir is large, measuring 20 kilometers (12 miles) by 21 kilometers (13 miles). In January 2016, Minister of Energy Vladimir Shkolnik informed that the second phase of Karachaganak was worth $12 bln and would be launched in 2017.

Current forecasts show that global oil production is likely to decrease in about 15-25 years due to depleted reserves by that time. Kazakhstan's giant oil fields – Tengiz and Kashagan – are among those fields that are predicted to see reduced output after 2040. New fields need to be found and developed and the Eurasia project offers such a possibility. In June 2015, the project begins its implementation process and was highly supported by KazmunaiGas. So in 2015, the government was working on consortium establishing and working on the issue of privileges and preferences of fiscal and non-fiscal nature, acceptable to potential investors of the project. The Eurasia project initiated in Atyrau in 2014 involves the exploration of deep laying horizons of the Caspian Basin, both on land and at sea, located on the territory of Kazakhstan and Russia. The cost is estimated at about $500 million. It will be carried out in three phases. The first phase envisages the collection and processing of materials from previous years. The second phase includes large-scale research. The last phase includes the drilling of a new support parametric well called Caspian 1, at the depth of nearly 14-15 kilometers. The potential payoff for Eurasia project is huge – up to some 50 billion tons of oil and oil equivalent.

We continue to see opportunity in Kazakhstan's oil patch and are encouraged by the efforts that the Government is making to foster economic diversification and attract investment into the non-oil economy, improve transport infrastructure and strengthening public and market institutions, as well as bring additional investment into the country. We remain well positioned to capitalize on these opportunities.

Group Operations

In 2015, the Group both started and completed a number of projects that have added significant value to our Atyrau development site. We completed the construction of supermarket project in Atyrau with our partners ADM Capital. The supermarket is located at Group's development site and is another step forward in realizing the property's full potential. 2,000 m2 building had been leased long term to Ideal, an operator of medium-scale supermarket and grocery stores in West Kazakhstan. The project, combined with our Saraishyk apartment development, also advances our goal of creating a desirable address in Atyrau where convenience, comfort and quality accommodation are experienced daily.

The Group completed construction of a recreational facility for Shell Development Kazakhstan. We also started a project to reconstruct and refurbish an office building in the city of Uralsk in Western Kazakhstan for the headquarters of the Karachaganak Petroleum Operating (KPO) consortium, one of the largest companies involved in the development of gas condensate fields in Kazakhstan. The project is implemented by Kurmangazy Development in partnership with JSC «NC «SEC «Oral».

Key operational highlights

Key operational highlights include:

- March 2015 — the Group has completed the construction of the Supermarket project, which has been leased long term to Ideal, an operator of large scale supermarket and grocery stores in Kazakhstan.
- April 2015 — the Group completed the construction of new Sport Social Club in Atyrau, which has been leased to Shell Development B.V.
- May 2015 — the Group through its subsidiary Caspi Limited LLP established a joint venture – Kurmangazy Development LLP with National Company "Social Entrepreneurial Corporation "Oral" with the Caspi Limited's share participation of 70%. The principal activities of the joint venture are refurbishment and further lease of the office building in Uralsk.
- July 2015 — the Group completed construction of 500 sq.m. Central Store in Atyrau for own operating purposes.
- August 2015 — National currency Tenge was devalued against US Dollar by 86 % with the exchange rate established at 339.47KZT/USD on 31st of December 2015 comparing to 182.35KZT/USD on 1st of January 2015.
- October 2015 — Kazinvestbank JSC increased interest rate for the Group from 11% to 13% for credit facilities denominated in KZT.
- November 2015 — the Group completed the GDRs de-listing and announced admission of issued share capital of the Company consisting of 21,250,000 ordinary shares to the Official List of the United Kingdom Listing Authority and to trading on the London Stock Exchange plc's main market for listed securities under the TIDM code "CGLO".
- December 2015 — the subsidiary of the Group, Seventh Sense Group LLP, merged with another subsidiary, Chagala Management LLP.
- December 2015 — the Group increased its aggregate interest in Compass Chagala Holding BV from 49% up to 100% and became the sole shareholder.
- December 2015 — the Group acquired 100% of the shares of Compass Group Holdings (Kazakhstan) Limited and Compass Group Management (Kazakhstan) Limited, respectively. Acquired Compass Group Holdings (Kazakhstan) Limited and Compass Group Management (Kazakhstan) Limited have

100% of the shares in three subsidiaries: Compass Offices Holdings LLP, Compass Offices PV LLP and Compass Offices Management LLP as established and registered in compliance with the laws of the Republic of Kazakhstan. The main activity of the acquired companies is operation of serviced offices and meeting rooms.

- December 2015 the Group fully repaid part of Kazinvestbank JSC loan granted to Bayan Limited LLP before the maturity date in November 2016.

1. Operating results, comments on the period of 2015 compared to 2014

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 2015**	**Year 2014**	**% Change**
Room and rent revenue	17,532	20,658	-15.1%
Food and beverages revenue	3,458	5,225	-33.8%
Other operating revenue	2,536	2,282	11.1%
TOTAL REVENUE	**23,526**	**28,165**	**-16.5%**
Utilities, cleaning and maintenance	4,001	5,018	-20.3%
Costs of food and beverages	1,148	1,581	-27.4%
Salaries and employee benefits	7,146	8,342	-14.3%
General and administrative expenses	3,280	3,443	-4.7%
EBITDA	**7,951**	**9,781**	**-18.7%**
Depreciation and amortization	4,207	5,253	-19.9%
OPERATING PROFIT	**3,744**	**4,528**	**-17.3%**

2015 sales were highly affected by devaluation of Kazakhstan Tenge against US Dollar. Apart of devaluation, the decrease in revenues in 2015 as compared to 2014 related to room and rent revenue, as well as food and beverage sales. The main reason for the decrease was reduction of volumes of office space rental and food packages sales to the major customers of the Group, predominantly NCOC. Nevertheless, the decline in revenues was not dramatic because of the US Dollar denominated or US Dollar linked contract for accommodation and office lease.

Expenses were also affected by devaluation of Kazakhstan Tenge against US Dollar in 2015. However, the main reason for costs and expenses reduction was continuing cost optimization and performance improvement program implemented by the Group.

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 beverages 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 and rent of restaurant outlets to external clients;

c) “Other operating revenue” which is the revenue from our sport facilities, the revenue from maintenance, utilities reimbursement, service charges and other operating revenues.

During this period our revenue decreased from USD 28,165 thousand during the twelve months ended 31 December 2014 to USD 23,526 thousand during the twelve months ended 31 December 2015. This 16.5% decrease resulted mainly from currency devaluation.

1.2.1 <u>Room and rent revenue</u>

Room and rent revenue decreased from USD 20,658 thousand during 2014 to USD 17,532 thousand during 2015.

In thousands of US Dollars	Year 2015	Year 2014
Hotel and Serviced Apartments	9,260	10,028
Office Rent	6,618	8,529
33 Townhouses	1,654	2,101
TOTAL	**17,532**	**20,658**

The Group continued its diversification strategy to capture more customers from banking, audit, FMCG and pharmaceutical companies, which led to increase of hotel occupancy rate. The average rate was compressed because of the currency devaluation.

Office rent revenue went down by USD 1,911 thousand (22.4%) in 2015 mainly due to reduction of the office space areas leased by NCOC by almost 3,000 sq.m. in Atyrau along with business center monthly rental decrease from 48,7 USD per sq.m. to 43 USD per sq.m with utilities reimbursement by actual consumption. Taking into consideration that some of the released office space was leased out to other clients, the total leased area decrease was lower, being around 1,000 sq.m. less in 2015 than in 2014.

Revenue from townhouses rent decreased by 21.3% because of the Tenge devaluation (the lease agreement is fixed in Tenge) and an additional agreement with the customer, specifying 20% discount for leased, but not used, townhouses and 50% discount for service charge for the same.

1.2.2 Food and beverage revenue

Food and beverage revenue decreased from USD 5,225 thousand during the twelve months ended 31 December 2014 to USD 3,458 thousand during the twelve months ended 31 December 2015. Together with the devaluation affected the food and beverage revenue decrease, general reduction of staff and the removal of food and beverage allowance by the Group’s main customers also had their negative effect upon the food and beverage sales.

1.2.3 Other operating revenue

Other operating revenue consisted of the following components:

In thousands of US Dollars	Year 2015	Year 2014
Laundry	346	381
Maintenance services	62	45
Sport & Leisure	196	281
Other	1,933	1,575
TOTAL	**2,537**	**2,282**

Revenue from Sport & Leisure segment decreased due to construction of the Sport Social Club for Shell Development, which was completed at the end of April and put into operation in May 2015.

Other revenues increased mainly due to utilities reimbursed by NCOC in frame of office lease contract and other supplementary services rendered to Group’s associates.

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 5,018 thousand during the twelve months ended 31 December 2014 to USD 4,001 thousand during the twelve months ended 31 December 2015. This 20.3% decrease was formed mainly by the currency devaluation, as well as costs optimization, including switch to cost saving technologies in utilities, consolidation of security posts with further security costs reduction, improvement of performance in the area of repair and maintenance.

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 1,581 thousand during the twelve months ended 31 December 2014 to USD 1,148 thousand during the twelve months ended 31 December 2015. This decrease of 27.4% is primarily due to the decrease of sales of food and beverages by 33.8%. The 2015 total beverage margin is higher to that in 2014 due to indexation of prices by suppliers, following the currency devaluation and import became more expensive. The total food and beverage margins (costs as % of revenue) were as follows:

In thousands of US Dollars	**Year 2015**	**Year 2014**
Food Revenue	2,891	4,430
Food Costs	993	1,376
Food costs as % of Food revenue	34.3%	31.1%

In thousands of US Dollars	**Year 2015**	**Year 2014**
Beverage Revenue	567	795
Beverage Costs	155	205
Beverage costs as % of Beverage revenue	27.3%	25.8%

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 8,342 thousand during the twelve months ended 31 December 2014 to USD 7,146 thousand during the twelve months ended 31 December 2015. This 14.3% decrease was primarily the result of the devaluation of currency and staff consolidation to match new requirements from our customers.

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 2015**	**Year 2014**
Taxes, duties and fees (mainly property tax)	1,222	1,382
Audit and valuation costs (incl. other professional fees)	1,093	981
Communication	245	272
Marketing	173	151
Insurance	116	128
Bank charges	90	111
Printing&Stationary	63	87
Travel	132	134
Other	146	199
TOTAL	**3,280**	**3,443**

General and administrative expenses decreased from USD 3,443 thousand during the twelve months ended 31 December 2014 to USD 3,280 thousand during the twelve months ended 31 December 2015. This 4.7% decrease is mainly as a result of the devaluation of currency. The increase in general and administrative costs in KZT equivalent was associated with the cost of valuation of fixed assets for the purpose of IFRS held once in a three-year period, as well as valuation for pledge purposes.

1.3.5 Depreciation and amortization

This includes the depreciation charged in accordance with our accounting policies based upon the value of our properties.

Depreciation and amortization decreased from USD 5,253 thousand during the twelve months ended 31 December 2014 to USD 4,207 thousand during the twelve months ended 31 December 2015. This 19.9% decline is mainly due to the currency devaluation.

2. Net results, comments on the period of 2015 compared to 2014

2.1 Non-operating results

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

In thousands of US Dollars	Year 2015	Year 2014	% Change
Operating Profit	**3,744**	**4,528**	**-17.3%**
Net foreign currency translation loss	(940)	(134)	601.5%
Revaluation of land and buildings	2,380	(876)	-371.1%
Impairment of capital work-in-progress, goodwill and intangible assets	(307)	-	-
Changed in the fair value of investment property	686		-
Loss on disposal of property, plant and equipment	(64)	(8)	700.0%
Gain on disposal of land contribution to associate	-	1,740	-100.0%
Finance income	53	26	103.8%
Finance expenses	(2,178)	(2,646)	-17.7%
Other income	217	46	371.7%
Other expenses	(128)	(444)	-71.2%
Share of loss of associates	(850)	(263)	223.2%
Profit / (loss) before income tax	**2,613**	**1,969**	**32.7%**
Income tax (expense) / benefit	(731)	(601)	21.6%
Net profit / (loss) for the year	**1,882**	**1,368**	**37.6%**

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.

KZT is not a fully convertible currency outside the territory of the Republic of Kazakhstan. The Group applies exchange rates of KZT to the US Dollar established by the National Bank of the Republic of Kazakhstan for reporting purposes. Below is an overview of foreign exchange rates of the KZT to the US Dollar ("USD") established by the National Bank of Republic of Kazakhstan:

	Exchange rate at 31 December	Weighted average rate during the year
2015	339,47	222,25
2014	182,35	179,19
2013	153,61	152,14

Net foreign currency translation loss of USD 940 thousand in 2015 formed mainly from USD denominated loans, while loss of USD 134 thousand in 2014 was related mainly due to trade receivables / payables.

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 Valuations LLP, to determine the fair value of its land and buildings at 31 December 2015, including investment property.

The Group recognized impairment and reversal of impairment as follows:

In thousands of US Dollars	Year 2015	Year 2014
Reversal of impairment/(impairment) of land and buildings	2,380	(876)
Impairment of capital work in progress	(138)	-
Impairment of goodwill	(169)	-
Changes in the fair value of investment property	686	-
TOTAL	**2,759**	**(876)**

In 2015 the Group signed deeds of assignment with Grand Strong Holdings Limited ("GSHL") to transfer all outstanding loans of Compass Group companies (Compass Office PV (Kazakhstan) LLP, Compass Offices Holdings (Kazakhstan) LLP and Compass Chagala Holding BV) in the total amount of USD 1,482 thousand to the Group. Consideration fee paid by Chagala Group Limited for loans assigned comprised USD 4. The Group considered these loans as a part of the acquisition and included them in the recognised amounts of identifiable net assets attributable to acquired interest. The net result of the transaction was recorded as impairment of goodwill.

In 2015 the Group recognized reversal of impairment of Aktau hotel to the amount of USD 1,381 thousand due to re-assessment of the existing market situation and issues surrounding the Kashagan project.

Property incl. Investment Property	**Descriprion**	**Location**	**Fair value as at 31 December 2015**	**Fair value as at 31 December 2014**	**Difference**
			(A)	**(B)**	**(A) - (B)**
Hotel building	76 rooms	Atyrau	1,876	6,107	(4,231)
Apartments buildings	226 apartments	Atyrau	6,388	13,029	(6,641)
Apartments building (Ural Residence)	108 apartments	Atyrau	5,737	10,007	(4,270)
33 Townhouses	33 townhouses	Atyrau	5,589	9,006	(3,417)
Office buildings	12,219 m2	Atyrau	23,321	19,163	4,158
Hotel building	83 rooms	Aktau	1,318	909	409
Hotel building	147 rooms	Bautino	7,660	10,593	(2,933)
Residential Commercial Park	56 rooms	Bautino	-	-	-
Hotel building	49 rooms	Uralsk	780	1,215	(435)
Apartments building	41 apartments	Uralsk	1,621	2,556	(935)
Residential camp	125 rooms	Aksai	1,287	2,832	(1,545)
Office building		Almaty	648	780	(132)
Land plots			11,861	16,341	(4,480)
Other properties			6,365	8,699	(2,334)
TOTAL			**74,451**	**101,237**	**(26,786)**
Translation reserve and other changes					(47,373)
Reflected as reversal of impairment at income statement					3,066
Reflected as an increase of revaluation reserves at comprehensive income statement					17,521

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).

The overall increase of fixed assets value was related to the properties, generating revenues in US Dollars. Therefore, the value of business centre offices covered by the office rent contract with NCOC significantly increased 2015 comparing to 2014.

2.1.3 Finance income / (expenses)

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

In thousands of US Dollars	**Year 2015**	**Year 2014**
Interest expense on borrowings	1,998	2,433
Unwinding of bond discount	180	205
Other	-	8
TOTAL	**2,178**	**2,646**

Interest expenses on borrowings include interest on overdraft facilities, interest on loan facilities of KazInvestBank and Al Hilal banks, as well as interest on bonds placed in KASE.

The interest expenses are lower in 2015 mainly due to the currency devaluation. The total effect of devaluation is reduced since the Group raised in Al Hilal bank the USD denominated loans in the amount of USD 5,550 thousand with Murabaha profit in range of 7%-7.5% or one year LIBOR plus 6%.

2.2 Profit / (loss) before income tax

Following the factors described above, profit before income tax increased from profit of USD 1,969 thousand during 2014 to profit of USD 2,613 thousand during 2015. The major reason for this increase is reversal of land and buildings impairment.

The 2015 income tax expense includes only deferred tax expense in the amount of USD 731 thousand.

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 2015**	**Year 2014**
1 January	(6,791)	(7,080)
Recognised in Consolidated income statement:		
Deferred tax expense reported in the income statement	(731)	(420)
	(731)	**(420)**
Recognised in Consolidated Statement of comprehensive income:		
Deferred tax expense reported in other comprehensive income	(3,504)	(404)
	(3,504)	**(404)**
Foreign currency translation	3,483	1,113
31 December	**(7,543)**	**(6,791)**

2.3 Net (loss) profit for the year

As a result of the above, during the twelve months ended the 31 December 2015 the Group earned a net profit of USD 1,882 thousand compared to a profit of USD 1,368 thousand during the twelve months ended the 31 December 2014.
During 2015 the Group consolidated its shares, transforming each 4 shares into 1 consolidated. As a result at 31 December 2015 the issued and fully paid shares of the Group consist of 21,250,000 shares of USD 0.40 each. Adjustment is incorporated in the weighted average number of shares in respect of share consolidation for the comparative year ended as at 31 December 2014 for a relevant comparison of earnings per share (“EPS”).
The earnings per share increased to USD 0.088 in 2015 from earnings per share of USD 0.068 in 2014 (both numbers are based on shares quantity after shares consolidation).

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 2015**	**31 December 2014**	**% Change**
Property, plant and equipment	73,188	101,403	-27.8%
Investment property	3,902	4,913	-20.6%
Intangible assets	115	161	-28.6%
Capital work in progress	2,265	1,658	36.6%
Investment aasociates	3,529	5,269	-33.0%
Restricted cash	6	13	-53.8%
Deferred tax asset	121	257	-52.9%
Non-Current Assets	**83,126**	**113,674**	**-26.9%**

3.1.1 <u>Property, plant and equipment</u>

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

In thousands of US Dollars	31 December 2015	31 December 2014
Land	8,858	11,435
Buildings	61,691	84,889
Furniture and equipment	2,639	5,079
TOTAL	**73,188**	**101,403**

The decline in the amount of Property, plant and equipment by USD 28,215 thousand is mainly explained by the currency devaluation during 2015.

The effect of devaluation was mitigated by new facilities commissioned and revaluation of lands and buildings. During 2015, the Group completed the construction and commissioned Sport Social Club and Central Store in Atyrau. Also, the Group recognised the increase of USD 3,066 thousand and USD 17,521 thousand in income statement and comprehensive income statement, correspondingly. The increase was mainly related to the buildings, generating revenues in US Dollars.

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

In thousands of US Dollars	Year 2015	Year 2014
Revaluation and impairment	19,901	1,143
Disposals and depreciations	(4,113)	(5,356)
Purchase of new furniture and equipment, including additions to buildings	3,031	1,832
Transfers from CIP	1,027	167
Transfers to investment property	(704)	(4,913)
Translation reserve / Foreign exchange translation difference	(47,357)	(20,243)

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. Investment property	Location	Fair value as at 31 December 2015	Fair value as at 31 December 2014
Caspi Limited LLP			
Offices	Atyrau	22,804	18,352
Apartments	Atyrau	12,412	23,528
Townhouses	Atyrau	5,549	8,906
Hotels	Atyrau	1,876	6,107
Other facilities	Atyrau	5,858	7,660
Land	Atyrau	9,580	13,078
Subtotal		**58,079**	**77,631**
Aktau Development Company LLP			
RCP	Bautino	-	-
Hotels	Bautino	7,660	10,593
Hotels	Aktau	1,318	909
Other facilities	Aktau and Bautino	579	1,048
Land	Aktau and Bautino	1,013	1,392
Subtotal		***10,570***	***13,942***
Bayan Limited LLP			
Apartments	Uralsk	1,621	2,556
Hotels	Uralsk	780	1,215
Other facilities	Uralsk	102	251
Land	Uralsk	484	883
Subtotal		***2,987***	***4,905***
Chagala Aksai LLP			
Apartments	Aksai	1,287	2,832
Other facilities	Aksai	59	116

Land	Aksai	361	596
Subtotal		***1,707***	***3,544***
Chagala Management LLP			
Office	Almaty	648	780
Other facilities	Almaty	36	42
Land	Almaty	424	393
Subtotal		***1,108***	***1,215***
TOTAL		**74,451**	**101,237**

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 2015**	**Year 2014**
Additions	2,798	1,202
Impairment	(138)	–
Capital repair / new assets put into operations (transfers from CIP)	(1,027)	(167)
Foreign exchange translation difference	(1,026)	(141)

On 30 April 2015 and 31 July 2015 the Group completed the construction of Sport Social Club and Central Store, respectively, which were started in 2014.

In the second half of 2015 the Group started the reconstruction of office building in Uralsk through its subsidiary, Kurmangazy Development LLP. The project was completed in May 2016.

The carrying amount of capital work-in progress as at 31 December is as follows:

In thousands of US Dollars	**31 December 2015**	**31 December 2014**
Caspi Limited LLP		
Office building in Atyrau city	338	615
Sport Social Club	–	772
Central Store	–	119
Other	49	29
Kurmangazy Development LLP		
Office building in Uralsk city	1,878	–
Other	**–**	**123**
TOTAL	**2,265**	**1,658**

3.1.3 Due from related parties

The Group has changed presentation of the below items in the consolidated statements of financial position and consolidated income statement and consolidated statement of cash flows for the year ended 31 December 2015 and reclassified comparative amounts for the year ended 31 December 2014.
Due to the fact that the development projects undertaken by the Group are usually short-term, having one year duration, the Group considers it relevant to present the advances paid within the framework of such projects as current assets. Therefore, all advances paid for property development to related parties have been included in the current assets as at 31 December 2015 and reclassified from non-current to current assets as at 31 December 2014.

Consolidated Statement of Financial Position **As at December 31, 2014** *In thousands of US Dollars*	**Presentation in 2015**	**Presentation in 2014**
Non-current assets		
Long-term prepayments	–	201
Due from related parties	–	905
Current assets		
Due from related parties	1,662	757
Other prepayments	763	562
	2,425	**2,425**

Amounts due from associates in 2015 mainly represent advances paid to Itasia Engineering by Kurmangazy Development LLP for construction works under the office building reconstruction project.

Due from related parties in 2014 include repair and construction works prepayments to Itasia Engineering made by Caspi Limited LLP and Chagala Management LLP.

3.1.4 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 is working on the construction of 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 an area of circa 14,000 square meters. The apartment block was finished in September 2014. The supermarket was completed in March 2015.

Crossbow LLP has purchased an office building in Almaty. The six floor building contains 5,156 square meters of useable 'A' class office space and is being 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 the 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 2015 Itasia incurred net losses and total comprehensive loss, of which the share of the Group constituted USD 15 thousand (2014: USD 5 thousand). The Group did not recognise the net losses on Itasia in the Statement of Comprehensive Income due to zero value of the investment. As at 31 December 2015 the amount of unrecognised Group's share of Itasia's net losses equals to USD 54 thousand (2014: USD 39 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 2015**	**31 December 2014**	**% Change**
Inventories	1,363	2,829	-51.8%
Trade receivables	2,816	2,729	3.2%
Taxes prepaid	422	426	-0.9%
CIT prepaid	611	1,012	-39.6%
Other assets	657	763	-13.9%
Cash and cash equivalents	1,791	2,522	-29.0%
Due from related parties outside the Group	2,065	1,662	24.2%
Current Assets	**9,725**	**11,943**	-18.6%

3.2.1 Inventories

Inventories decreased from USD 2,829 thousand as at 31 December 2014 to USD 1,363 thousand as at 31 December 2015 mainly due to the currency devaluation.

3.2.2 Trade receivables

Trade accounts receivable increased from USD 2,729 thousand as at 31 December 2014 to USD 2,816 thousand as at 31 December 2015. This 5.4% increase is mainly explained by receivables from NCOC for office rental.

The majority of the Group's accounts receivable is denominated in US Dollars (40%) and Tenge (60%) (2014: 28% and 72% accordingly). The largest trade accounts receivable are from North Caspian Operating Company ("NCOC") representing 65% (at 31 December 2014: from NCOC representing 64%) of total trade accounts receivable.

3.2.3 Taxes prepaid

The major part of taxes prepaid represents recoverable VAT. As at 31 December 2015 recoverable VAT increased by 8.2% due to land and building purchased and reconstruction works in the frame of the office building reconstruction project in Uralsk.

3.2.4 Other assets

Other assets are represented by prepayments for goods and services required for providing the operational services for hotels, apartments, offices, restaurants and other facilities. No major changes occurred in 2015 compared to 2014.

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 2015 the Group had cash of USD 1,791 thousand.

The Group has Bonds payable with a maturity date in December 2016; therefore, the outstanding amount of USD 6,498 thousand has been presented as current liabilities as at 31 December 2015.

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 2015**	**Year 2014**
Net cash from operating activities	3,957	7,156
Net cash used in investing activities	(5,493)	(3,641)
Net cash from financing activities	1,047	(3,118)
NET (DECREASE) / INCREASE IN CASH	**(489)**	**397**

4.1.1 Net cash from operating activities

In 2015 net cash provided by operating activities was USD 3,957 thousand compared to net cash provided by operating activities of USD 7,156 thousand in 2014. This decrease in net cash provided by operating activities occurred primarily due to the currency devaluation and advances paid out to Itasia Engineering in the frame of office building reconstruction project in Uralsk.

4.1.2 Net cash used in investing activities

The cash outflow from investing activities mainly represents finalizing construction works of Sport Social Club and Central Store in Atyrau, completed in March and July 2015, respectively. In 2015, the Group started reconstruction 4,700 sq.m. of office building in Uralsk.

4.1.3 Net cash from financing activities

Net cash received from financing activities during the twelve months ended 31 December 2015 was USD 1,047 thousand compared to net cash used in financing activities in the amount of USD 3,118 thousand in 2014. During 2015 the Group received US Dollar denominated loans from Islamic Bank Al-Hilal JSC in the amount USD 5,550 thousand.

Besides regular repayment of current portion of long-term loans, the Group paid out dividends in the amount of USD 1,212 thousand (2014: USD 400 thousand).

4.2 Non-current Liabilities

As at 31 December 2015 and 2014, the non-current liabilities were USD 14,670 thousand and USD 23,105 thousand, respectively. Decrease of USD 8,435 thousand is explained mainly by reclassification of Bonds payable to current liabilities. Moreover, the currency devaluation shrunk the long term borrowings denominated in KZT.

4.2.1 Long-term advances from customers

In September 2015 under office building reconstruction project in Uralsk, Kurmangazy Development LLP, entered into a long-term contract with Karachaganak Petroleum Operating B.V. (“KPO BV’) and received a USD denominated advance in the amount of USD 1,500 thousand. Since the advance received is treated as a non-monetary item, the outstanding amount was adjusted to the exchange rate as at 31 December 2015.

4.3 Current Liabilities

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

In thousands of US Dollars	**Year 2015**	**Year 2014**	**% Change**
Current portion of long-term borrowings	1,779	2,752	-35.4%
Bonds payable	6,498	-	100.0%
Short term borrowings (overdraft facility)	-	1,460	-100.0%
Interest payable	135	196	-31.1%
Trade accounts payable	597	1,681	-64.5%
Advances from customers	670	321	108.7%
Taxes payable	464	546	-15.0%
Due to related parties	47	386	-87.8%
Other payables and accruals	39	524	-92.6%
Current Liabilities	**10,229**	**7,866**	**30.0%**

Current liabilities primarily consisted of the current portion of long-term borrowings, bonds payable, advances from customers, trade accounts payable, and taxes payable.

Bonds payable were reclassified to current liabilities as the maturity date is in December 2016. The Group is negotiating refinance of its outstanding bonds with long-term loan.

The Group received a USD denominated advance from KPO BV in the amount of USD 1,500 thousand, where the amount of USD 350 thousand is related to the services to be rendered in 2016.

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.

4.4 Capital resources

As at 31 December 2015 the Group had no material contractual commitments for the purchase of property, plant and equipment from third parties (31 December 2014: no).

The difficult external environment and increasing pressures domestically will continue to affect Kazakhstan in 2016, with growth expected to remain low. However, we see the current environment as a chance to develop ourselves and continue to grow our business in Kazakhstan. We know that the Kashagan field will come on stream, leading to increased activity levels in the region, and there are other major oil fields that are looking to expansion plans. Our company should benefit from the increased activity levels, when they come through. Our current efficiency measures should ensure that a strong margin growth.

Moreover, almost 40% of revenue generated by the Group are US dollar denominated or linked to the US Dollar exchange rate and the management assesses that US dollar revenue generated by the Group would be sufficient to cover cash outflows on interests and principal repayments and timely coincides therewith, which mitigates the Group’s exposure to the risk of unfavourable changes in foreign exchange rate and creates an economic hedge.

4.5 Borrowings

Islamic Bank Al-Hilal JSC

In October 2014 Caspi Limited LLP and Aktau Development Company LLP (the “Companies”) 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. Under this credit line the Companies have the right to roll over the credit facility during the period of 36 months from the date of first utilization. Under this credit line 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 including USD 440,000 to refinance a loan from HSBC Kazakhstan JSC. The Murabaha profit is one year LIBOR plus 6%, but the minimum is 7.5% for credit facilities denominated in USD and one year LIBOR plus 7%, but the minimum is 8% for credit facilities denominated in KZT. Caspi Limited LLP received credit facilities in KZT during 2014.

In November 2014, Caspi Limited LLP received a loan from Islamic Bank Al-Hilal JSC within a second limit to finance the purchase of land plot. The credit facility equals KZT 381,100 thousand, with the maturity date in November 2019 and fixed Murabaha premium of 8%. In 2014 it was fully drawn. The grace period for this loan is twelve months from the date of the loan receipt and commences in the last quarter of 2015.

In 2015 the Caspi Limited LLP received from Islamic Bank Al-Hilal JSC the following credit facilities within the second credit line with indicated Murabaha profit as one year LIBOR plus 6%, but the minimum is 7.5%:

- In March 2015 – a credit facility in the amount of USD 550,000 with a first principal payment date in March 2016
- In August and November 2015 – credit facilities with carrying amounts of USD 2,500,000 and USD 1,000,000 accordingly for Kurmangazy Development LLP project in Uralsk;

In addition, the Companies received from Islamic Bank Al-Hilal JSC the following credit facilities within the first credit line with a right to roll over during the period of 36 months from the date of first utilization:

- In March 2015 Aktau Development Company LLP drew down a credit facility in the amount of USD 500,000 with an annual fixed rate 7%;
- In November and December 2015 Caspi Limited LLP received two credit facilities of USD 700,000 and USD 300,000 accordingly with annual fixed rate 7%.

The Group incurred additional financing cost because of value added tax turnover, which affected the proportion of value added tax that can be offset. The value added tax turnover occurred, when Murabaha goods were purchased and sold. As a result the Group could not offset value added tax of USD 190 thousand, and paid the same out to the state budget.

As at 31 December 2015 the credit facilities are secured as follows:

- Pledged immovable properties with a carrying amount of USD 6,299 thousand;
- 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 of 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%. During 2015 the interest rate regarding this loan facility was adjusted with additional agreement and increased up to 13%. In 2015 the effective interest rate is 13.9% (2014: 10.1%).

Additionally, in November 2012 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 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%. During 2015 the interest rate regarding this loan facility was adjusted with additional agreement and increased up to 13%. In 2015 the effective interest rate is 13.9% (2014: 10.9%).

As at 31 December 2015 the credit facilities are secured as follows:

- Pledged immovable properties with a carrying amount of USD 27,943 thousand;
- 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 3,240 thousand);
- Corporate guarantee issued by Chagala Group Limited.

Bonds payable

In December 2011 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 2015, the amount of unamortized discount related to this bond is USD 130 thousand (2014: 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 the minimum is 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, with a maturity date in December 2015 and fixed interest rate of 8%. In 2014 it was fully drawn.
As of 31 December 2015 both credit facilities were fully repaid and had no outstanding balances.

Long-term loans and borrowings are repayable as follows:

In thousands of US Dollars	**31 December 2015**	**31 December 2014**
Maturity up to 1 year, including interest payable	1,914	2,948
Total current portion	**1,914**	**2,948**
Maturity between 1 and 2 years	1,530	14,622
Maturity between 2 and 5 years	4,560	1,435
Total long-term portion	**6,090**	**16,057**
Total long-term borrowings	**8,004**	**19,005**

5. Recent/Subsequent events

After 31 December 2015, the Group has undertaken the following upgrades and developments:

- From 1 January 2016 the Group extended the contract for business centre office lease till 31 December 2016 and is currently negotiating further 5 years extension.
- In May 2016 the Group has completed a merging process of two subsidiaries of the Group - Compass Chagala Holdings B.V. and Chagala International Holding B.V.
- The Group proactively negotiates the refinance of Bonds payable with maturity date in December 2016.
- In May 2016 the Group announced the completion of reconstruction on the office building in Uralsk for KPO B.V. Operation lease has started in June 2016.
- In May 2016 Caspi Limited LLP received a credit facility from Islamic Bank Al-Hilal JSC in the amount of USD 500,000.

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