

**Explanatory notes to the
Interim Consolidated Financial Statements
SAT & Company JSC
For 2 quarter 2014**

Explanatory notes to the interim consolidated financial statements for 2 quarter 2014.

General Information

Organization and principal activities

SAT & Company JSC (hereinafter “the Company”) is a joint stock company in the meaning defined in the Civil Code of the Republic of Kazakhstan. The Company’s registered office is at 241, Mukanov Str., Almaty, 050008, Republic of Kazakhstan. These interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries (hereinafter “the Group”).

The principal activities of the Company and its subsidiaries as of June 30, 2014 are as follows:

The Company/subsidiary	Principal activity
Sat &Company JSC	Investment activities
Taraz Metallurgy Plant LLP	Metal production
KARUAN LLP	Subsurface use
Saryarka Mining LLP	Subsurface use
Arman 100 LLP	Subsurface use
Taraz Elektrode Plant LLP	Production and sale of electrode paste and repair masses
CAICC LLP	Investment activities
SAT&Co HOLDING A.S. JSC, Turkey	Trading activity
FNP “Ertys” LLP	Nickel ore exploration
Kaznickel LLP	Nickel ore exploration
Temirtau Electro Metallurgical Plant JSC (TEMP)	Metallurgical production / subsurface use
SAT SinoFerroAlloy B.V. /Netherlands/	Metallurgical production / subsurface use
Axem Investment LLP	

SAT&Company JSC was established in October 2011. In 2006 the Company was reregistered as Joint Stock Company.

Business environment

The Group operations are subject to economic, political and social risks inherent in doing business in Kazakhstan as well as abroad. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes requirements and other legal regulations, foreign exchange fluctuations and the enforceability of contractual rights.

The attached consolidated financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Group. The future business environment could marginally differ from management’s current assessment.

Basis of preparation

These consolidated interim financial statement have been prepared in accordance with International Financial Reporting Standards (interpretations IFRS and IFRIC), as issued by International Accounting Standards Board (IASB), including IAS 34 “Interim financial statements” and also those parts of Kazakhstan legislation which are applicable to the Company, that prepares its financial statements in accordance with IFRS.

The management believes, that this consolidated interim financial statements include all the necessary adjustments for the fair presentation of the financial position of the Group, its operating results and the results of cash flows for 2 quarter 2014.

New Accounting Regulations

Standards, amendments and interpretations effective from 2014 and adopted by the Group:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. Adoption of the revised standard resulted in revision of disclosures but did not have effect on the recognition or measurement of transactions and financial position of the Group;
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

Standards and the interpretations of operating standards which are becoming valid starting from January 1, 2013 or after this date, but did not affect activities of the Group are not described in these notes.

Standards, amendments and interpretations to existing standards which are not effective or early adopted by the Group:

- Amendment to IAS 12, Income Taxes (effective for the annual periods beginning on or after 1 January 2012). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IFRS 13, Fair value measurement, (issued in May 2011 and effective for periods beginning on or after 1 January 2013). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IFRS 10, Consolidated financial statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011 and effective for periods beginning on or after 1 January 2013). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (issued in August 2011 and effective for annual periods beginning on or after 1 January 2013). Group is considering the implications of the aforementioned new standards, amendments and interpretations to existing standards on its consolidated financial statements and dates of their adoption;
- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features of the standard are as follows:
 - The adoption of IFRS 9 from 1 January 2015 is mandatory and early application is permitted. Currently, the Group is considering effects of adoption of the Standard, its influence on the Group and the date of Standard adoption by the Group.

Standards, corrections and interpretations which are not valid yet and the Group did not apply them in view of the operations absence.

Below amendments and interpretations of standards which were published are presented and are obligatory for the reporting periods of Group starting from January 1, 2012 and after this date, or for later periods, but do not concern operating activities of Group:

- Changes to IFRS 1 “First-time Adoption of International Financial Standards” (valid from July 1, 2011 or after this date);
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013);

Bases of Consolidation

These consolidated financial statements reflect the Group's financial position as of June 30, 2014 as well as the result financial operations of the Group for the period ended December 31, 2013 and June 30, 2014.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity in order to benefit from these activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date of actual transition of control to the date of its termination.

Associates

Associates are the entities over which the Group has significant control (directly or non directly), but not control over financial and operating policies, shares in these companies equals 20% - 50%. Investments in associated entities accounted on the base of equity method and initially recognized at cost. Dividends received from associated entities are accounted against investment cost in these associated companies.

Transactions eliminated at consolidation

All intergroup accounts and transactions, as well as unrealized profit from intergroup transactions are eliminated when preparing consolidated financial statements. Unrealized profit from transactions with associated entities and entities under joint control are eliminated in accordance with share of the Group in these entities. Unrealized profit from associated entities is eliminated from investments into the associates. Unrealized losses are eliminated as unrealized profit but they are eliminated to the extent that there is no evidence of impairment.

Bases of measurement

These consolidated financial statements were prepared in accordance with historical cost principal.

Functional currency and presentation currency

National currency of Kazakhstan is Kazakhstan Tenge (hereinafter "KzT") which is the functional currency of the Company as well as the currency used to prepare these consolidated interim financial statements in accordance with IFRS. All financial information is presented in thousands of tenge.

Use of assumptions and estimates

For preparation of these consolidated interim financial statements in accordance with IFRS management make judgments, estimates and assumptions, which affects the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities. Actual results might differ from those estimates.

Assumptions and estimates are regularly revised for the need of making changes. Changes in estimates are recognized in the reporting period in which they were revised and in all subsequent periods affected by those changes.

Summary of significant accounting policy

When preparing of the consolidated interim financial statements in accordance with IFRS primary accounting policies were applied. Those accounting policies were applied consistently.

Foreign currency transactions

Foreign currency transactions are translated into tenge at the exchange rates effective at the date of transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into tenge at the exchange rate effective at this reporting date. Non-monetary assets and liabilities denominated in foreign currency and carried at fair value

are translated into tenge at the exchange rate effective at the date when fair value was determined. Exchange income and losses are recognized in the income statement.

Property, plant and equipment

Recognition and subsequent measurement

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and part of direct construction overhead costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit and loss for the reporting period as incurred.

Depreciation

Land is not depreciated. Mining assets are depreciated using the unit-of-production method based on estimated economically viable recoverable reserves to which they relate. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values. Each item's estimated useful life depends on its own useful life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located.

Estimated useful lives are presented in the table below:

	<u>Useful lives (in years)</u>
Buildings and constructions	5-50
Machinery and equipment	4-25
Vehicles	5-10
Other	3-15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil, if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment

At the end of each reporting period management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Exploration and evaluation assets

Initial recognition and subsequent measurement

Exploration and evaluation assets are measured at cost less provision for impairment, where required. Exploration and evaluation assets include the cost of subsurface use (exploration) rights, capitalised expenditures on drilling of exploratory wells, cost of support equipment and facilities, geological and geophysical studies, stripping costs, as well as production and other general overhead costs that are directly attributable to the exploration fields. Production and other general overhead costs capitalised within exploration and evaluation assets include salaries of personnel involved in the exploration and evaluation activities and other overhead costs directly related to exploration and evaluation activities.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral reserve is demonstrable. Once commercial reserves are found, exploration and evaluation assets are transferred to development tangible and intangible assets (within property, plant and equipment and intangible assets) and amortised using the unit-of-production method based on proved and probable mineral reserves.

Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested by the Group for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate assets' impairment. An impairment loss is recognised for the amount by which exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

One or more of the following facts and circumstances indicate that the Group should test its exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral reserves in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral reserves in the specific area have not led to the discovery of commercially viable quantities of mineral reserves and the Group has decided to discontinue such operations in the specific area;
- sufficient data exists to indicate that, although development works in the specific area are likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full resulting from efficient development or by sale.

For the purpose of assessing impairment, the exploration and evaluation assets subject to impairment testing are grouped by projects.

Intangible assets

The Group's other intangible assets have definite useful lives and primarily include capitalised computer software and subsurface use rights (extraction of mineral resources). Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use and is amortised on a straight line basis over useful lives estimated by the management at 3 to 5 years. Subsurface use rights are amortised over the term of the relevant subsurface use contracts. If impaired, the carrying value of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Finance instruments

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued

coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Trade receivables

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less provision for impairment to such receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit and loss for the year. The primary factor that the Group considers in determining whether a financial asset is impaired is its overdue status.

Advances to suppliers are carried at cost less provision for impairment. Advances are classified as non-current when the goods or services relating to the advances are expected to be obtained after one year, or when advances relate to an asset which will itself be classified as non-current upon initial recognition. Advances to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at current bank accounts and short term deposits with maturity less than three months.

Borrowings

Borrowings are initially recognised at fair value net of transaction costs. Borrowings are subsequently measured at amortised cost; the difference between the proceeds amount (net of transaction costs) and the redemption amount is recognised in the profit or loss during the period of the borrowing using the effective interest rate.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalised.

Trade payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables, except for advances received, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Advances received are stated at actual amounts received from the third parties.

Revenue

Revenues are recognized to the extent that it is more likely that economic benefits will flow to the Group and the amount of revenue may be reliably estimated. Proceeds from sale of goods are recognized in the income statement at the time when all risks and benefits from such ownership are transferred to the customer, usually after transfer of title for the goods.

Interest income

Interest income comprises interest income from investments and proceeds from deposits. Interest income is recognized as it accrues using the effective interest rate.

Interest expenses

Interest expenses include interest expenses on borrowings, interest expenses on bonds payable and preferred shares, and amortization of discount on provisions. All interest expenses and other expenses incurred on borrowings are charged to finance expenses incurred.

Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except for the cases when it relates to items recognized directly to equity, in which cases it is recognized in equity statement.

Dividends

Dividends are recognized as liabilities in the period in which they were approved by the shareholders. Dividends on preferred shares are recognized as liabilities each reporting period during the year between payments and accounted for 1 tenge for 1 share.

Notes to the consolidated interim statement of comprehensive income

Revenue

	2 quarter 2014	2 quarter 2013
Sale of metal	3 382 078	4 328 264
Sale of carbide calcium	1 021 968	905 535
Sale of chalk stone	688 452	500 997
Sale of coal	-	1 327
Other	191 672	259 662
Total	5 284 170	5 995 785

Revenue by location

	2 quarter 2014	2 quarter 2013
The Republic of Kazakhstan	3 548 771	2 663 125
The Russian Federation	1 428 228	2 900 364
The Republic of Moldova	-	95 399
Chinese National Republic	86 303	
Uzbekistan	8 008	18 337
The Republic of Kyrgystan	18 631	18 294
Tadzhikistan	17 180	16 970
Ukraine	27 425	36 164
Turkmenia	-	36 208
Other regions	149 624	210 924
Total	5 284 170	5 995 785

Cost of goods sold

	2 quarter 2014	2 quarter 2013
Electricity	950 844	1 695 620
Materials and supplies	1 880 701	1 981 222
Overhead expenses	63 877	124 643
Salary and related taxes	493 754	848 967
Auxiliary shops services	95 591	39 198
Services of contractors (excavation and other)	93 414	5 767
Depreciation, amortization and depletion	109 788	265 334
Fuel	46 405	270 606
Taxes	27 054	132 294
Repair and maintenance	49 549	22 092
Rent of equipment	16 088	5694
Rock mass excavation and transportation, refinery services	-	
Payments for usage of wagons	35 435	50 651
Transportation	7 542	100 016
Business trip expenses	-	3 098
Changes in finished goods and work in progress	(118 877)	(33 021)
Other	74 350	50 348
Total	3 825 515	5 562 529

Selling Expenses

	2 quarter 2014	2 quarter 2013
Transportation	127 195	135 497
Salary	16 481	37 127
Materials and Supplies	32 870	52 980
Rent and railway services	5 973	
Other	12 831	94 544
Total	195 350	320 148

General and administrative expenses

	2 quarter 2014	2 quarter 2013
Salary and related taxes	475 776	818 905
Depreciation and amortization	183 900	182 285
Fines and penalties	79 958	20 463
Taxes	102 052	132 444
Security	82 871	138 208
Communication and utilities	55 280	17 479
Sponsorship and other financial aid	72 269	45 092
Legal services, consultations, etc.	41 198	223 978
Rent	17 245	35 213
Business trip expenses	14 067	36 510
Materials	26 411	59 994
Bank services	10 678	18 532
Bad debt expense	(140 007)	(303 474)
Other	80 881	204 617
Total	1 102 579	1 630 246

Other operating income

	2 quarter 2014	2 quarter 2013
Foreign exchange gain	1 415 860	91 151
Gain from sale of investments and business acquisitions	480 636	-
Income from sale of fixed assets	262 053	20 573
Income from grab iron and other products	161 632	516 798
Deferred revenue	217 532	-
Income from write off of accounts payable	145 640	-
Other	113 484	62 041
Total	2 796 837	690 563

Other operating expenses

	2 quarter 2014	2 quarter 2013
Foreign exchange loss	3 486 060	210 417
Loss from sale of investments	749 719	-
Loss from disposal of fixed assets	92 938	4 672
Other	108 135	145 969
Total	4 436 852	361 058

Interest income

	2 quarter 2014	2 quarter 2013
Recovery of provision	5 578	192 276
Income from deposits	76	2 107
Other	-	3 687
Total	5 654	198 070

Interest expense

	2 quarter 2014	2 quarter 2013
Interest expenses – bank loans	1 091 956	934 367
Interest expenses – bonds	671 779	551 729
Dividends	196 319	194 596
Recovery of discount	159 205	-
Other	-	184 081
Total	2 119 259	1 864 773

Notes to consolidated interim statement of financial position**Current assets****Cash and Cash Equivalents**

As of March 31, 2014 cash amounted to KzT 290 458 thousand. Cash are kept on current bank accounts and non restricted.

Other short-term financial assets

	As of June 30, 2014	As of December 31, 2013
Financial aid	11 615 098	12 243 480
Less provision for bad debts	(5 763 127)	(5 258 427)
Total	5 851 971	6 985 053

Short-term trade and other receivables

	As of June 30, 2014	As of December 31, 2013
Trade receivables	1 317 453	2 316 046
Short-term receivables from employees	43 636 100	41 761 000
Financial aid	9 680	99 971
Provision for doubtful debts	260 009	1 436 877
Other receivables	(256 460)	(75 436)
Total	44 966 782	45 538 458

Inventory

	As of June 30, 2014	As of December 31, 2013
Finished products	843 051	695 541
Raw materials	749 861	785 735
Work in progress	57 952	136 720
Goods for sale	9 133	-
Other	3 875	97 942
Provision for obsolete inventory	(156 920)	(77 632)
Total	1 506 952	1 638 306

Other current assets

	As of June 30, 2014	As of December 31, 2013
Short-term advances paid	1 338 841	-
Input VAT	988 884	869 723
Other current taxes	8 959	-
Prepaid expenses	2 871	-
Provision for doubtful debts	-	-
Other	20 942	31 946
Total	2 360 497	901 669

Assets for sale

	As of June 30, 2014	As of December 31, 2013
Assets of SAT&Company JSC	718 253	761 169
Assets of SAT Komir JSC	-	3 215 846
Total	718 253	3 977 015

Non-current assets**Long-term trade and other receivables**

	As of June 30, 2014	As of December 31, 2013
Long-term receivables from employees	-	79 806
Other long-term receivables	123 915	37 712
Total	123 915	117 518

Investment property

	As of June 30, 2014	As of December 31, 2013
Property included in Temirtau Electro Metallurgical Plant JSC	1 049 223	1 625 203
Rakhat Towers	2 081 558	-
Total	3 130 781	1 625 203

Exploration and evaluation assets

	As of June 30, 2014	As of December 31, 2013
Exploration and evaluation assets at the beginning of the period	1 687 142	3 825 714
Depreciation of exploration and evaluation assets	-	-27 870
Additions to exploration and evaluation assets	3 218	75 343
Transfer to presentation currency	-	-
Impairment	-	(2 186 045)
Exploration and evaluation assets at the end of the period	1 690 360	1 687 142

Intangible assets

	As of June 30, 2014	As of December 31, 2013
Licenses, subsurface use right	1 844 044	1 844 044
Other	31 066	35 073
Total	1 875 110	1 879 117

Other long-term assets

	As of June 30, 2014	As of December 31, 2013
Advances paid for fixed assets	1 135 095	1 259 903
Long-term part of input VAT	1 202 080	945 165
Advances paid for other long-term assets	-	50 000
Restricted cash	33 078	29 806
Other	-	48 692
Total	2 370 253	2 333 566

Property, plant and equipment

	Land	Buildings and Construction	Machinery and Equipment	Transport, furniture, computers and other office equipment	Construction in progress	Total
Carrying amount at the beginning of the period	3 355 683	55 792 775	6 445 052	938 810	2 391 126	18 709 948
Additions	-	2 225	39 350	36 536	436 688	514 799
Disposals	(67 289)	(26 185)	(16 683)	(9 222)	-	(119 376)
Depreciation	-	(57 940)	(280 337)	(56 960)	-	(395 237)
Depreciation on disposals	-	11 654	2 313	395	-	14 362
Carrying amount at the end of the period	3 288 397	5 509 031	6 189 695	909 559	2 827 814	18 724 496

As of June 30, 2014 fixed assets of KzT 17,201,333 thousand are pledged as bank collateral.

Current liabilities**Short term borrowings**

This note discloses information about loans and credit arrangements of the Group.

	As of June 30, 2014	As of December 31, 2013
SberBank of Russia JSC	5 462 415	3 675 717
Alliance Bank JSC	1 655 208	2 700 666
GTL LLP	-	2 262 750
Bank RBK JSC	-	532 363
Other	-	1 224 636
Total short-term loans	7 117 623	10 396 132

Other short-term financial liabilities

	As of June 30, 2014	As of December31, 2013
Dividends on preferred shares	490 047	196 319
Interest payable on loans	-	854 083
Bonds as part of other short-term financial liabilities	-	839 565
Other	322 280	
Total	812 327	1 889 967

Short-term trade and other payables

	As of June 30, 2014	As of December31, 2013
Trade payables to suppliers	5 351 575	3 988 748
Interest payable on loans	608 909	-
Other payables	2 834 297	-
Total	8 794 781	3 988 748

Other current liabilities

	As of June 30, 2014	As of December31, 2013
Advances received	2 677 955	2 696 862
Taxes payable	-	194 582
Short-term part of deferred income	109 312	218 623
Other	32 210	190 556
Total	2 819 477	3 300 623

Liabilities of subsidiaries for sale

	As of June 30, 2014	As of December31, 2013
Liabilities of SAT Komir JSC	4 519 777	5 892 772
Total	4 519 777	5 892 772

Non-current liabilities.**Long term borrowings**

	As of June 30, 2014	As of December31, 2013
SberBank of Russia JSC	9 109 544	9 299 423
Halyk Bank JSC	2 331 344	
Other	1 403 880	1 017 083
Total loans	12 844 768	10 316 506

Other long-term liabilities

	As of June 30, 2014	As of December31, 2013
Debt component of preferred shares	3 717 906	3 717 910
Deferred income	2 550 605	2 550 605
Commercial discovery bonus	563 607	563 607
Historic expenses	56 309	56 309
Actuarial liabilities	-	108 124
Other	-	-
Total	6 888 427	6 996 555

Issued bonds

The Group registered two bonds payable issuance:

1st bond issuance:

On January 3, 2008 the Company issued 150 million of unsecured coupon bonds, with nominal value of KzT 100. Bonds are subject to repayment in seven years from the date of issue at their nominal value. Payment of coupon is performed twice a year, on January 3 and on June 3. Coupon rate for 11 coupon period ending January 3, 2014 is 7.0 % per annum. As of June 30, 2014 the bonds are placed in the quantity of 119 976 047.

Company recognized discount on bonds. Discount is depreciated using effective interest rate method; the interest rate is defined at each coupon payment date.

	As of June 30, 2014	As of December31, 2013
Bonds at nominal value	11 997 605	11 997 605
Discount	(218 310)	(424 239)
Bonds part of other short-term financial liabilities	(322 280)	(322 280)
Carrying value of long-term financial liabilities on the 1st bond issue	11 457 015	11 251 086

2nd bond issuance:

On August 2, 2012 the Company issued 60 million of unsecured coupon bonds, with nominal value of KzT 100. Bonds are subject to repayment in seven years from the date of issue at their nominal value.

Payment of coupon is performed twice a year, on February 2 and on August 2. For the first year coupon rate is 12% per annum and starting from the second year coupon rate is flexible depending on inflation defined each 6 months.

Upper limit is defined on the level of max=12% per annum and lower level as min=3% per annum.

Coupon rate for 2 coupon period ending on February 2, 2014 is 8.9% per annum. As of June 30, 2014 the bonds are placed in the quantity of 11 855 880.

Company recognized premium on bonds. Discount is depreciated using effective interest rate method; the interest rate is defined at each coupon payment date.

	As of June 30, 2014	As of December31, 2013
Bonds at nominal value	1 185 588	1 185 588
Premium	66 093	71 508
Carrying value of long-term financial liabilities on the 2nd bond issue	1 251 681	1 257 096
Total financial liabilities	12 708 696	12 508 182

Equity

The equity of the Group amounting to KzT 30 491 794 thousand, consists of share capital, debt component of preferred shares, treasury equity, reserves, retained earnings and non-controlling interests as of the reporting date.

Total number of authorized ordinary shares and preferred shares equaled to 3 000 000 000 (three billion) and the number of the preferred shares amounted to 750 000 000 (seven hundred fifty million), respectively.

As of reporting date treasury shares amounted to KzT 31 583 817 thousand and included:

- placed ordinary shares 1 236 300 836 for the total amount of KzT 19 399 298 thousand;
- placed preferred shares 392 637 822 for the total amount of KzT 12 184 519 thousand.

Debt component totaling to KzT 3 717 908 thousands was comprised from preferred shares.

As of reporting date repurchased shares equaled to:

Ordinary shares 10 420 747 for the total amount of KzT 617 470 thousand;

Preferred shares 2 for the total amount of KzT 60.

Reserves include recalculated effect of investment in the amount of KzT 11 290 420 thousand and foreign currency translation reserve in the amount of KzT 92 318 thousand and total amounted to – KzT 11 382 738 thousand. Accumulated deficit amounted to KzT 14 824 397 thousand and share of minority interest amounted to KzT 198 304 thousand.

Carrying amount of one ordinary share

	As of June 30, 2014	As of December31, 2013
Total assets	91 232 748	93 180 327
Intangible assets	1 875 110	1 879 117
Liabilities	60 740 954	59 289 283
Preferred shares	8 466 611	8 466 611
Net assets for ordinary shares	20 150 073	23 545 316
Number of ordinary shares, thousand pcs.	1 236 301	1 236 290
Carrying amount KzT	16,30	19,05

Balance value of one ordinary share is calculated as proportion of net assets for ordinary shares to the number of ordinary shares as of reporting date.

Net assets are calculated as difference between assets and liabilities, less intangible assets and less preferred shares.

Carrying amount of one preferred share:

	As of June 30, 2014	As of December31, 2013
Accrued dividends	392 638	196 318
Preferred shares	12 184 519	12 184 519
Including debt component of the preferred shares	3 717 908	3 717 908
Number of preferred shares, pcs	392 638	392 638
Carrying amount, KzT	32,03	31,53

Balance value of one preferred share is calculated as proportion of balance of preferred shares including accrued dividends liabilities and debt component of the preferred shares to the number of preferred shares as at the reporting date.

Company owners:

Shareholders possessing ten and more percent of placed ordinary shares of the JSC (less the shares repurchased by the Company) as of reporting date.

- Rakishev Kenges Khamituly – 51,85%;
- SFK KOR Invest LLP – 22,91%;
- ENPF JSC – 17,30%.

Profit per Share

Profit per share is calculated as relation of the net profit to weighted average number of ordinary shares as at the reporting date. Profit per share takes into accounts the split of shares of November 20, 2008. There is no potential ordinary shares with dilution effect in the Group.

	As of June 30, 2014	As of December31, 2013
Net income/(loss) attributable to shareholders	(3 399 547)	(408 679)
Weighted average number of ordinary shares in thousands	1 236 298	1 236 380
Profit (loss) per share attributed to JSC shareholders (KzT)	(2,75)	(0,33)

Capital Management

Management of the Group keeps the capital leverage which is sufficient to ensure confidence of the investors, creditors and market as a whole, and to provide business growth rate in the future. Group Management controls the return on investments ratio and tries to keep the balance between high profitability (which is possible with higher borrowings level) and advantages and security of the stable capital funds. There were no changes in the Group's capital management policy during the reporting period.

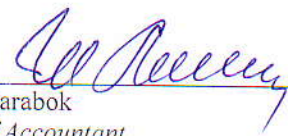
Actions at Law

In the main course of the business the Group faces the litigations and claims. Management believes that total liabilities, if such will appear, arising as a result of such proceedings and claims, will not have a significant negative influence on the financial position of the Group.

As of June 30, 2014 the Group was not involved into any significant litigation issues including arbitration considerations.


R. Sagitova
Deputy Chairman of the Board on Finance and Investments




N. Sharabok
Chief Accountant