SAT & Company JSC

International Financial Reporting Standards

Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

Sat&Co®
MANAGING COMPANY

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Director
IAC Centeraudit-Kazakhstan LLP
(State audit license MFU No. 0000017
dated 27 December 1999)
_______________ V. Radostovets
28 August 2013

To Shareholders and Board of Directors of SAT&Company JSC

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of SAT&Company JSC and its subsidiaries (hereinafter referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements
Management of the Group is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management of the Group determines necessary to enable the preparation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group's management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements of the Group present fairly, in all material respects, the financial position of SAT&Company JSC and its subsidiaries as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 4 hereof stating that as at 31 December 2012 most of the Group's subsidiaries are on the stage of exploration, evaluation and early development. This condition, along with other matters as set forth in Note 4 hereof, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

O. Shmidt
Auditor
(Auditor Qualifying Certificate No. 307 issued on 23 December 1996)

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Nurly Tau Business Center, Off. 301-302,
050059, Almaty,
Republic of Kazakhstan.

Translated from the Russian original

SAT&Company JSC
Consolidated Statement of Financial Position

In thousands of Kazakhstani Tenge	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	24,434,807	40,005,524
Exploration and evaluation assets	9	3,825,714	3,781,538
Investment property	10	2,853,372	-
Intangible assets	11	2,063,609	110,450
Investments in associates and joint ventures	12	6,829,171	3,436,479
Deferred income tax assets	34	867,881	199,241
Other non-current assets	14	4,249,811	10,743,198
Total non-current assets		**45,124,365**	**58,276,430**
Current assets			
Inventories	15	2,124,312	1,751,709
Trade and other receivables	16	12,604,340	16,858,409
Other current assets	17	1,561,137	1,603,184
Cash and cash equivalents	18	501,688	738,608
Non-current assets and disposal groups classified as held for sale	19	25,674,677	-
Total current assets		**42,466,154**	**20,951,910**
TOTAL ASSETS		**87,590,519**	**79,228,340**
EQUITY			
Share capital	20	27,764,542	23,200,038
Treasury shares	20	(585,015)	(128,709)
Currency translation reserve		(211,359)	(298,298)
Other reserves		(11,290,420)	(11,290,420)
Retained earnings		15,154,175	14,826,277
Equity attributable to the Group's equity holders		**30,831,923**	**26,308,888**
Non-controlling interests		1,187,892	2,736,224
TOTAL EQUITY		**32,019,815**	**29,045,112**
LIABILITIES			
Non-current liabilities			
Site restoration provision	21	1,104,158	744,918
Borrowings	22	20,166,981	20,206,919
Deferred income tax liabilities	34	2,111,993	3,775,588
Other non-current liabilities	23	7,175,884	7,375,098
Total non-current liabilities		**30,559,016**	**32,102,523**
Current liabilities			
Borrowings	22	10,487,523	14,505,768
Trade and other payables	24	5,389,831	3,574,937
Liabilities of disposal groups classified as held for sale	19	9,134,334	-
Total current liabilities		**25,011,688**	**18,080,705**
TOTAL LIABILITIES		**55,570,704**	**50,183,228**
TOTAL LIABILITIES AND EQUITY		**87,590,519**	**79,228,340**

Signed on behalf of the management on 28 August 2013

Rumiya Sh. Sagitova
Deputy Chairman of the Board on Finance and Investments

Nadezhda I. Sharabok
Chief Accountant

The accompanying notes on pages 5 to 84 are an integral part of these consolidated financial statements.
Translated from the Russian original

In thousands of Kazakhstani Tenge	Note	2012	2011
Continuing operations			
Revenue	25	15,696,670	6,138,090
Cost of sales	26	(16,445,586)	(7,352,755)
Gross loss		**(748,916)**	**(1,214,665)**
Bargain purchase gain	5	5,441,762	-
Other operating income	27	932,966	8,562,012
Exploration and evaluation expenses	28	(273,790)	(87,970)
General and administrative expenses	29	(2,454,600)	(2,453,781)
Distribution costs	30	(773,164)	(495,029)
Other operating expenses	31	(730,628)	(162,781)
Impairment of investments at cost	13	-	(1,039,383)
Operating (loss) / profit		**1,393,630**	**3,108,403**
Finance income	32	467,490	522,956
Finance costs	33	(4,398,885)	(3,660,898)
Share in loss of associates and joint ventures	12	(406,114)	(412,966)
Loss before income tax		**(2,943,879)**	**(442,505)**
Income tax benefit	34	1,010,954	746,092
(Loss) / profit for the year from continuing operations		**(1,932,925)**	**303,587**
Discontinued operations			
(Loss) / profit for the year from discontinued operations	35	(1,047,460)	172,700
(Loss) / profit for the year		**(2,980,385)**	**476,287**
Other comprehensive income			
Exchange differences on translation to presentation currency		67,720	(190,420)
Total comprehensive (loss) / income for the year		**(2,912,665)**	**285,867**
(Loss) / profit is attributable to:			
Equity holders of the Group		(2,356,887)	567,881
Non-controlling interest		(623,498)	(91,594)
(Loss) / profit for the year		**(2,980,385)**	**476,287**
Total comprehensive (loss) / income is attributable to:			
Equity holders of the Group		(2,296,334)	412,429
Non-controlling interest		(616,331)	(126,562)
Total comprehensive (loss) / income for the year		**(2,912,665)**	**285,867**
(Loss) / earnings per share attributable to the equity holders of the Group, basic and diluted (in Tenge per share)			
From continuing operations			
Common shares	36	(1.22)	0.26
Preference shares	36	(1.22)	0.26
From discontinued operations			
Common shares	36	(0.66)	0.15
Preference shares	36	(0.66)	0.15

In thousands of Kazakhstani Tenge	**Note**	**Share capital**	**Trea-sury shares**	**Currency trans-lation reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-control-ling interests**	**Total**
		Attributable to the equity holders of the Group							
Balance at 1 January 2011		**16,497,036**	**(26,021)**	**(142,846)**	**(11,436,300)**	**13,961,625**	**18,853,494**	**3,443,507**	**22,297,001**
Profit for the year		-	-	-	-	567,881	567,881	(91,594)	476,287
Other comprehensive income		-	-	(155,452)	-	-	(155,452)	(34,968)	(190,420)
Total comprehensive income for the year		-	-	(155,452)	-	567,881	412,429	(126,562)	285,867
Share issue	20	6,703,002	-	-	-	-	6,703,002	-	6,703,002
Treasury shares	20	-	(102,688)	-	-	-	(102,688)	-	(102,688)
Change in share in subsidiaries	20	-	-	-	-	296,940	296,940	(555,370)	(258,430)
Other		-	-	-	145,880	(169)	145,711	(25,351)	120,360
Balance at 31 December 2011		**23,200,038**	**(128,709)**	**(298,298)**	**(11,290,420)**	**14,826,277**	**26,308,888**	**2,736,224**	**29,045,112**
Loss for the year		-	-	-	-	(2,356,887)	(2,356,887)	(623,498)	(2,980,385)
Other comprehensive income		-	-	60,553	-	-	60,553	7,167	67,720
Total comprehensive loss for the year		-	-	60,553	-	(2,356,887)	(2,296,334)	(616,331)	(2,912,665)
Share issue	20	4,564,504	-	-	-	-	4,564,504	-	4,564,504
Treasury shares	20	-	(456,306)	-	-	-	(456,306)	-	(456,306)
Business combinations	5	-	-	-	-	-	-	2,070,498	2,070,498
Change in share in subsidiaries	20	-	-	28,075	-	2,696,924	2,724,999	(2,959,314)	(234,315)
Other		-	-	(1,689)	-	(12,139)	(13,828)	(43,185)	(57,013)
Balance at 31 December 2012		**27,764,542**	**(585,015)**	**(211,359)**	**(11,290,420)**	**15,154,175**	**30,831,923**	**1,187,892**	**32,019,815**

In thousands of Kazakhstani Tenge	Note	2012	2011
Cash flows from operating activities			
Cash inflow:			
Sale of goods and services		18,421,694	5,872,942
Other sales		442,057	318,854
Cash outflow:			
Payments to suppliers of goods and services		(15,568,029)	(7,210,282)
Payments on salary		(2,469,827)	(1,210,634)
Interest paid on borrowings and bonds payable		(3,587,877)	(2,268,308)
Corporate income tax and other payments to the budget		(841,462)	(569,664)
Other payments		(902,790)	(1,636,809)
Net cash used in operating activities - continuing operations		**(4,506,234)**	**(6,703,901)**
Net cash used in operating activities - discontinued operations		**283,725**	**(613,029)**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,441,278)	(3,351,935)
Proceeds from sale of property, plant and equipment		159,604	
Purchase of exploration and evaluation assets		(383,004)	(590,888)
Proceeds from disposal of subsidiaries, net of cash disposed		867,900	2,149,095
Acquisition of subsidiaries, net of cash acquired		(647,230)	-
Proceeds from disposal of associates		3,574,080	-
Acquisition of associates	12	(3,801,806)	-
Repayment of loans given to other entities		15,519,984	6,775,982
Loans provided		(14,139,833)	(16,861,952)
Withdrawal of cash transferred for trust management		-	(15,667)
Advances received for business acquisition		451,470	-
Withdrawal of restricted cash		2,600,000	
Other		567,830	(517,073)
Net cash used in investing activities - continuing operations		**2,327,717**	**(12,412,438)**
Net cash used in investing activities - discontinued operations		**(1,156,425)**	**(309,523)**
Cash flows from financing activities			
Proceeds from issue of shares	20	5,153,723	8,890,071
Proceeds from DAMU		305,500	
Payments for treasury shares	20	(456,306)	(102,688)
Proceeds from issue of bonds		2,349,876	1,474,897
Payments for treasury bonds		(1,559,366)	(205,255)
Proceeds from loans and borrowings		13,032,243	25,369,569
Repayments of loans and borrowings		(16,851,271)	(17,639,600)
Other		(9,093)	(163,281)
Net cash from financing activities - continuing operations		**1,965,306**	**17,623,713**
Net cash from financing activities - discontinued operations		**876,903**	**485,402**
Net decrease in cash and cash equivalents - continuing operations		**(213,211)**	**(1,492,626)**
Net decrease in cash and cash equivalents - discontinued operations		**4,203**	**(437,150)**
Effect of exchange rates to tenge		**2,249**	**-**
Cash and cash equivalents at the beginning of the year	18	738,608	2,668,384
Less: cash and cash equivalents related to disposal groups	19	(30,161)	-
Cash and cash equivalents at the end of the year	**18**	**501,688**	**738,608**

1 The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2012 for SAT&Company JSC (the "Company") and its subsidiaries (together referred to as the "Group").

Corporate background

The Company was incorporated on 18 October 2001 as a limited liability partnership and on 15 August 2006 the Company was re-registered as a joint stock company in accordance with the Kazakhstani legislation.

The Company's common and preference shares and coupon bonds are placed at Kazakhstan Stock Exchange ("KASE"). The Company's common and preference shares are included in the KASE first category shares list. Bonds are included in the list of Non-Rated Debt Securities of first category (SATCb1) and in the list of Rated-Debt Securities category (SATCb2).

The Company's shareholders

At 31 December 2012 and 2011 the Company's common shareholders were:

	31 December 2012	31 December 2011
Mr. Rakishev Kenges Khamituly	49.05%	51.59%
SFC KOR Invest LLP	23.49%	-
Pension saving funds	17.01%	23.68%
MAC ALIANS LLP	-	22.48%
Others	10.45%	2.25%
Total	**100.00%**	**100.00%**

The Company's ultimate controlling party is Mr. Kenges Rakishev.

Principal activity

Prior to 2009 the Group's activities were significantly diversified: the Group was engaged in mechanical engineering, construction, transportation, logistics and other industries.

In 2008, the Group's shareholders defined the metallurgy and mining industries as the priority ones for the Group's operations. Accordingly, since 2009 the Group successively made a number of strategic acquisitions in the metallurgy and mining industries (Note 5). In addition to that the Group disposed certain entities which did not represent the Group's core operations.

Main subsidiaries, joint ventures and associates

The following list shows the Group's subsidiaries, joint ventures and associates, and the percentage of the ownership held directly or indirectly by the Company in these companies (the Company's ownership percentage as at 31 December 2012 in brackets):

Shalkiya Zinc N.V. ("Shalkiya Zinc NV") (98.13%): an entity incorporated in the Netherlands, and representing a holding company which has 100% interest in charter capital of Shalkiya Zinc Ltd LLP ("Shalkiya Zinc Ltd"). The principal activity of Shalkiya Zinc Ltd is exploration, extraction and complex processing of lead-zinc ore at Shalkiya and Talap fields located in Kyzylorda oblast. As at 31 December 2011 the Group held 84.28% interest in Shalkiya Zinc NV. On 30 January 2012, the Group increased its ownership percentage to 98.13% through acquisition of interest from minority shareholders (Note 20). In June 2012, management of the Group decided to sell Shalkiya Zinc Ltd (Note 19).

Central Asian Investing Consulting Company LLP ("CAICC") (99.91%): an entity incorporated in the Republic of Kazakhstan, and representing a holding company.

Taraz Metallurgy Plant LLP ("TMP") (100%): an entity incorporated in the Republic of Kazakhstan. TMP's main activity is production of ferroalloy products for metallurgy industry on the basis of metallurgy plant located in Taraz, Zhambyl oblast.

Taraz Electrode Plant LLP ("TarEP") (100%): an entity incorporated in the Republic of Kazakhstan. TarEP's main activity is production and sale of electrode paste and repair masses. TarEP was established in October 2011 on the basis of electrode mass production workshop of TMP.

1 The Group and its Operations (continued)

Axem Investment LLP ("Axem Investment") (100%): an entity incorporated in the Republic of Kazakhstan. Axem Investment's main activity is production of mineral fertilisers on the basis of phosphorus containing waste dumps of TMP. The Group acquired 100% ownership in the subsidiary in December 2012.

Arman100 LLP ("Arman100") (100%): an entity incorporated in the Republic of Kazakhstan and engaged in production of manganese ore at the Western Kamys field in Karaganda oblast with further processing and sale of manganese concentrate to TMP.

Temirtau Electro-metallurgy Plant JSC ("TEMP") (75.45%):an entity incorporated in the Republic of Kazakhstan. Main activity of TEMP is extraction of manganese ore at Bogach and Yesymzhal fields, extraction of limestone at the Southern-Topar field and production of calcium carbide and ferroalloy products for metallurgy industry on the basis of chemical-metallurgical plant located in Temirtau town in Karaganda oblast. The Group acquired the interest in TEMP in March 2012 (Note 5).

Trade House SAT LLC ("TH SAT") (99%): an entity incorporated in the Russian Federation in 2011 and engaged in marketing of products of TMP and TEMP, as well as products of third-party metallurgy companies in the Russian Federation and CIS countries.

Saryarka Mining LLP ("Saryarka Mining") (80%): an entity incorporated in the Republic of Kazakhstan and engaged in exploration and further production of ferromanganese ore at Tuyebay-Syurtysu field in Karaganda oblast. In 2012, management of the Group decided to cease operations of Saryarka Mining in the nearest future.

KARUAN LLP ("KARUAN") (50%): a subsidiary incorporated in the Republic of Kazakhstan and engaged in exploration of manganese ore at Aitkokshe field in Mangistau oblast. In 2012, management of the Group decided to cease operations of KARUAN in the nearest future.

SAT&Co Holding A.Ş. ("SAT&Co Holding") (97.73%): an entity incorporated in Turkey, main activity of which is an exploration of chrome ores. SAT&Co Holding is a holding company which at 31 December 2010 held 100% interests in SAT&Co Madencilik İşl. Tic. A.Ş. ("SAT&Co Madencilik"), a holder of chrome exploration licenses, as well as Denizli Madencilik İşl. Tic.A.Ş. ("Denizli Madencilik" or "Denizli"") and Sivas Madencilik İşl. Tic. A.Ş. ("Sivas Madencilik" or "Sivas") which were the operators at these fields carrying out exploration and evaluation operations. In 2011, Denizli Madencilik and Sivas Madencilik were merged with SAT&Co Madencilik. As at 31 December 2011, the Group interest in SAT&Co Holding was 90%. In October 2012, the Group increased its interest in SAT&Co Holding to 97.73% via acquisition of minority shares (Note 20).

Mining Company SAT Komir JSC ("SAT Komir") (100%): an entity incorporated in the Republic of Kazakhstan and engaged in production of brown coal at Kumyskuduk site of Verkhnesokurskoe field in Karaganda oblast of the Republic of Kazakhstan. During 2012 SAT Komir was re-organised from limited liability partnership into joint-stock company. In December 2012, the Group entered into the agreement on disposal of the controlling interest in SAT Komir (Note 19).

Ertis Ferronickel Plant ("FNP Ertis") (51%): an entity incorporated in the Republic of Kazakhstan and engaged in development of the project on processing of cobalt and nickel ores of Gornostayevskoye field. FNP Ertis owns 100% interest in charter capital of Kaznickel LLP.

Kaznickel LLP ("Kaznickel") (51%): an entity incorporated in the Republic of Kazakhstan and engaged in exploration of cobalt and nickel ores at Gornostayevskoye field located in the Eastern Kazakhstan oblast.

Kazakhstan Petrochemical Industries Inc. LLP ("KPI") (49%): an associate incorporated in the Republic of Kazakhstan and engaged in construction and establishment of an integrated chemical gas complex in the Western Kazakhstan which includes construction of the complex for production of polypropylene (phase 1) and construction of the complex for production of polyethylene (phase 2).

KLPE LLP ("KLPE") (25%): a joint venture incorporated in the Republic of Kazakhstan in the special economic zone the "National Industry Petrochemicals Technology Park" in Atyrau oblast. Main activity of KLPE is fulfilment of the second phase of the integrated chemical gas complex in the Western Kazakhstan (production of polyethylene). KLPE was established by the Group in 2011 as Ammonia Production and Distribution LLP ("Ammonia P&D") and did not have significant operations in 2011. In 2011, the Group sold 50% right to participate in the joint venture to LG Chem Ltd. ("LG Chem"). As at 31 December 2011 the Group held 50% interest in Ammonia P&D. In March 2012, the Group sold 25% interest in Ammonia P&D to United Chemical Company LLP, a subsidiary of Sovereign Welfare Fund Samruk-Kazyna JSC (Note 12). In December 2012, Ammonia P&D was renamed to KLPE.

Kazgeocosmos JSC ("Kazgeocosmos") (38.22%): an associate incorporated in the Republic of Kazakhstan and engaged in aerospace monitoring of natural sites and industrial facilities. As at 31 December 2011 the Group's interest in equity of Kazgeocosmos was 32.1%.

1 The Group and its Operations (continued)

Other entities: various entities not involved in significant operations, and which are not material for the Group as a whole.

In 2011, the Group ceased consolidation of Jinsheng SAT (Tianjin) Commercial Trading Co. Ltd. ("Jinsheng SAT"), an entity incorporated in the People's Republic of China of which the Group holds 51% interest.

Unless stated otherwise, the Group held the same percentage of ownership in the aforementioned companies as at 31 December 2011.

At 31 January 2011 the Group held 50% interest in the charter capital of SAT Trade LLP ("SAT Trade"). SAT Trade is an entity incorporated in the Republic of Kazakhstan and engaged in purchase and processing of crude oil at Atyrau oil refinery and sale of oil products. The Group sold its interest in SAT Trade in 2012.

Subsurface use contracts

The Group operates in the Republic of Kazakhstan in accordance with the following subsurface use contracts:

Contractual area	Current stage	Mineral resource	Signing date	Expiration date	Entity	Share
Gornostayevskoye(1)	Exploration	Nickel	26 February 2004	26 February 2026	Kaznickel	51.00%
Kumyskuduk Verkhnesokurskoe	Production	Coal	26 June 2001	26 June 2026	SAT Komir	100.00%
Shalkiya	Production	Zinc	31 May 2002	31 May 2046	Shalkiya Zinc Ltd	98.13%
Talap(2)	Exploration	Zinc	15 December 2004	15 December 2024	Shalkiya Zinc Ltd	98.13%
Western Kamys(3)	Exploration/ production	Manganese	14 May 2001	14 May 2013	Arman 100	100.00%
Aitkokshe(4)	Exploration	Manganese	30 July 2008	30 July 2013	KARUAN	50.00%
Tuyebay-Syurtysu(5)	Exploration / production	Ferro-manganese	8 May 2008	8 May 2037	Saryarka Mining	80.00%
Bogach	Exploration / production	Manganese	4 September 1999	4 September 2024	TEMP	75.45%
Yesymzhal	Exploration / production	Manganese	10 November 2000	10 November 2025	TEMP	75.45%
South-Topar	Production	Fluxing limestone	2 July 1996	2 July 2016	TEMP	75.45%

The exploration period at Gornostayevskoye field expired on 26 February 2012. During 2012 the Group applied to the Ministry of Industry and New Technologies ("MINT") for extension of the exploration stage until February 2015. At the date of these consolidated financial statements MINT did not approve the respective addendum to the subsurface use contract. Management of the Group believes that application for extension of the exploration stage of this subsurface use contract will be approved by MINT by the end of 2013.

(2) On 17 October 2012, MINT revoked the subsurface use contract for Talap field. Management plans to appeal to the court in 2013 regarding the revocation of the Talap subsurface use contract.

(3) During 2012, the Group submitted an application for extension of the term of subsurface use (production) contract at Western Kamys field until May 2020. In December 2012, the application for extension of the production stage was approved by the Central Committee on Exploration and Development of Minerals ("CCED"). At the date of these consolidated financial statements the application was under consideration of MINT. Management of the Group believes that addendum on extension of this subsurface use contract will be approved by applicable authorities by the end of 2013.

(4) During 2012, the Group made an application to MINT for extension of the contract on exploration at the Aitkokshe field until 2020. In the letter dated 27 August 2012 MINT responded that the extension would be possible if it is substantiated by the appropriate project documentation. Due to the distressed economic position and significant uncertainty as to the quality and quantity of the reserves at Aitkokshe field management of the Group decided to cease the exploration activities at this field..

1 The Group and its Operations (continued)

(5) The exploration period under the subsurface use at Tuyebay-Syurtysu field expired on 8 May 2012. During 2012, the Group submitted an application to MINT for extension of the exploration stage until May 2014 along with the corresponding project documentation. At the date of these consolidated financial statements the project documentation has been being considered by MINT. Upon approval of the project documentation and work program MINT will consider the application for extension of the exploration stage. Due to the distressed economic position, the need for substantial financial investments for further exploration activities and significant uncertainty regarding the profitability of Tuyebay-Syurtysu field the management of the Group decided to cease the exploration activities at this field..

The Group is also involved in exploration of chrome ores in Turkey in accordance with 17 exploration and production licenses with expiry dates varying from March 2013 to November 2020.

Registered address and place of business

The registered address of the Company's head office is: 241, Mukanov Street, Almaty, Republic of Kazakhstan.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. Actual results could differ from these estimates.

Going concern

Management prepared these consolidated financial statements on a going concern basis. Uncertainties related to the events and conditions that may cast a significant doubt upon the Group's ability to continue as a going concern are presented in Note 4.

Consolidated financial statements

(i) Subsidiaries

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

2 Basis of Preparation and Significant Accounting Policies (continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

(ii) Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from the parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts.

The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. When there is no predecessor the financial statement carrying amounts of the acquired entity are used. Any difference between the carrying amount of net assets and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to other reserve within equity.

(iii) Purchase and sale of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

(iv) Joint ventures

The Group's shares in joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Carrying value of interests in joint ventures includes goodwill identified in the acquisition less accumulated impairment loss, if any. Dividends received from joint ventures reduce the carrying value of the investment in joint ventures. Other post-acquisition changes in Group's share of net assets of joint ventures are recognised as follows: (i) the Group's share of profits or losses of joint ventures is recorded in the consolidated profit or loss for the year as share of result of joint ventures, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of joint ventures are recognised in profit or loss within the share of result of joint ventures.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(v) Investments in associates

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

2 Basis of Preparation and Significant Accounting Policies (continued)

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(vi) Disposal of subsidiaries, joint ventures and associates

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Foreign currency translation

(i) Functional currency and presentation currency

All amounts in the consolidated financial statements are stated in thousands of Tenge, unless stated otherwise.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, except for the SAT&Co Holding and TH SAT, is Tenge. Functional currencies of SAT&Co Holding and TH SAT are Turkish Lira and Russian Rouble, respectively.

Loans between Group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between Group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognised in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognised in other comprehensive income.

The results and financial position of each Group entity, the functional currency of which is not presentation currency of the financial statements, are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates for the respective periods (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

2 Basis of Preparation and Significant Accounting Policies (continued)

(ii) Operations and balances in foreign currency

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Principal exchange rates used to translate foreign currency balances are presented below:

	2012	**2011**
US Dollar		
Period-end exchange rate	150.74	148.40
Average exchange rate for the period	149.11	146.62
Russian Rouble		
Period-end exchange rate	4.96	4.61
Average exchange rate for the period	4.80	5.00
Turkish Lira		
Period-end exchange rate	84.31	77.53
Average exchange rate for the period	82.89	87.86

Exchange restrictions and currency controls exist relating to conversion of Tenge into other currencies. Currently, Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Property, plant and equipment

(i) 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.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or expenses.

Mining assets are carried at cost less accumulated amortisation and less any impairment losses, if required. Expenditure, including evaluation costs, incurred to establish or expand productive capacity, as well as the costs to conduct mining-construction, mining-capital and mining preparation works during the development or mine reconstruction phase, are capitalised to mining assets.

(ii) 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.

2 Basis of Preparation and Significant Accounting Policies (continued)

Estimated useful lives are presented in the table below:

	Useful lives (in years)
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.

(iii) 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.

(vi) Stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised using unit of production method over the useful lives of the mine.

Subsequent stripping costs incurred during the production stage are capitalised and gradually expensed in cases when such costs are material, and such accounting treatment represents the most reliable basis for matching expenses and related economic benefits, generally in case of significant fluctuations of stripping costs during the useful life of the mine. Amount of capitalised and expensed stripping costs is determined based on the ratio of extracted waste and ore volume (stripping ratio).

Exploration and evaluation assets

(i) 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.

(ii) 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.

2 Basis of Preparation and Significant Accounting Policies (continued)

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.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment.

Depreciation on investment property is calculated using the straight-line method to allocate its cost to its residual values over their useful lives estimated by the management at 20 to 25 years.

Earned rental income is recorded in profit or loss for the year within revenue.

Intangible assets

The Group's 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.

Financial instruments

(i) Key measurement terms

Depending on their classification financial instruments are carried at fair value, cost or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

2 Basis of Preparation and Significant Accounting Policies (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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.

(ii) Classification of financial assets

Financial assets have the following categories:
a) financial assets carried at fair value with changes recognized as profit or loss;
b) loans and receivables;
c) financial assets held to maturity;
d) available-for-sale financial assets.

The financial assets of the Group are classified as follows:
- loans and receivables,
- available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets.

Held-to-maturity investments include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2 Basis of Preparation and Significant Accounting Policies (continued)

(iii) Classification of financial liabilities

The Group classifies its financial liabilities within the scope of IAS 39 as follows:
a) financial liabilities carried at fair value through profit or loss;
b) loans and payables.

Financial liabilities of the Group are classified as “loand and payables” and after the initial recognition carried at amortised cost .

(iv) Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value less transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

(v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(vi) Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group’s right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events-indicators”) that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost. For such instruments, if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(vii) Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any provision for incurred impairment losses.

2 Basis of Preparation and Significant Accounting Policies (continued)

(viii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables , except for prepaid taxes and advances to supplies, 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.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

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. Other advances are written off when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to an advance will not be received, the carrying value of advances is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Prepaid taxes are recorded at amounts actually paid less provision for impairment.

2 Basis of Preparation and Significant Accounting Policies (continued)

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis at any issue of inventories to production or other dosposal. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (calculated on the basis of capacity utilization) 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.

Value added tax

Value-added tax ("VAT") related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases is stated in the statement of financial position on a net basis. Recoverable VAT is classified as non-current if its settlement is not expected within one year after the reporting period. Non-current recoverable VAT is measured at discounted value. Discounted value is determined based on estimated dates and the amount to be offset.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at current bank accounts. Cash and cash equivalents are carried at amortised cost using the effective interest rate method. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets, while balances restricted for more than three months but less than twelve months after the reporting period are included in other current assets.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale and disposal groups' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current reporting period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment and intangible assets are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

2 Basis of Preparation and Significant Accounting Policies (continued)

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares which carry a mandatory coupon are classified as financial liabilities and are presented in other non-current liabilities. The dividends on these preference shares are recognised as interest expense on an amortised cost basis using the effective interest method.

Dividends

Dividends are recognised as a liability and are deducted from equity at the end of reporting period only if they are declared before or at the end of reporting period. Dividends are disclosed when they are proposed before the end of reporting period or proposed or declared after the reporting period but before the financial statements are authorised for issue.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Site restoration provision

Site restoration provision includes the landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure provisions are formed and recorded in the cost of property, plant and equipment in the accounting period when the obligation from the related disturbance arises, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Site restoration provisions do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations.

Landfill site restoration and closure costs are a normal consequence of mining, and the majority of landfill site restoration and closure expenditure is incurred during the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation or “unwinding” of the discount applied in establishing the net present value of provisions is charged to profit or loss in each accounting period. The amortisation of the discount is shown as a finance cost.

Other movements in the provisions for mining assets and waste polygons retirement obligations, resulting from new disturbance as a result of mine development, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate using the depreciation methods applied to those assets. Movements in the provisions for asset retirement obligations that relate to disturbance caused by the production phase are charged to profit or loss for the year.

Where restoration and remediation works are conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous remediation work at each balance sheet date and the cost is charged to the profit and loss for the year.

Obligation on payment of commercial discovery bonus and reimbursement of historical costs

The Group recognises the obligation on payment of commercial discovery bonus and reimbursement of historical costs on those contracts for which the commercial discovery is highly probable and commercial feasibility of capital investments and further development and production of mineral resources are proved. Management’s estimates of probability of commercial discovery are based on results of exploration, test production and evaluation of mineral resources reserves by independent engineers. Commercial discovery bonus and historical costs are initially recognised as part of subsurface use rights included to intangible assets or exploration and evaluation assets.

2 Basis of Preparation and Significant Accounting Policies (continued)

Financial guarantees

Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Group issues a premium-free guarantee or a guarantee at a premium different from market premium, fair value is determined using valuation techniques (e.g. market prices of similar instruments, interest rate differentials, etc). This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in profit or loss for the year as other operating income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to costs or losses already incurred or for the purpose of immediate financial support to the entity without any future costs to be incurred, are recognised as income in the period when the compensation is to be received.

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.

In accounting for loans from related parties with non-market terms, the Group records gain on origination in profit or loss for the year or directly in equity as a capital contribution. The method used reflects the transaction's economic substance. It is applied consistently to all similar transactions and disclosed in the consolidated financial statements.

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.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. Trade and other 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.

2 Basis of Preparation and Significant Accounting Policies (continued)

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Employee benefits

(i) Long-term employee benefits

The Group entities provide long term employee benefits to employees before, on and after retirement, in accordance with their collective employment agreements. The agreements provide for one-off retirement payments, financial aid in case of employees' disability, anniversaries, birth of child and death to employees of the Group. The entitlement to some benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. The Group does not have any funded post-employment plans. Liability recognised at each reporting date represents the present value of the plan liabilities. Actuarial gains and losses arising during the year are charged to the profit and loss for the year. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the present value of the plan liabilities are also recognised in the consolidated statement of comprehensive income, including current service cost.

The most significant assumptions used in accounting for defined benefit obligations are the discount rate and employees' turnover. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as an interest cost. The employees' turnover assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits are considered as other long-term employee benefits. These obligations are valued annually by independent qualified actuaries.

(ii) Payroll expense and related contributions

Expenses for salaries, pension contributions, social tax, contributions to social funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group. The aggregate amount of contributions to pension and social insurance funds is 11% of the taxable income of the Group's employees. Upon retirement of employees, the financial obligations of the Group cease and all subsequent payments to retired employees are administered by the state and private cumulative pension funds.

Revenue recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Proceeds from sales of minerals produced during the test production stage are not recognised in profit or loss for the year as revenues, but are credited against cost of exploration and evaluation assets.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

2 Basis of Preparation and Significant Accounting Policies (continued)

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

In determining the tax bases of the restoration and closure costs, added to the cost of property plant and equipment, and site restoration provision, the Group allocates the future tax deductions to the liabilities. Under this approach the initial recognition exemption does not apply. Deferred tax liability is recognised in respect of the taxable temporary difference on the restoration and closure costs added to the cost of property plant and equipment and, subject to recognition criteria mentioned above, a deferred tax asset is recognised in respect of the deductible temporary difference on the site restoration provision.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 New Accounting Pronouncements

(i) Standards, amendments and interpretations effective from 2012 and adopted by the Group:

- The amendment to IAS 12, Income taxes, which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

3 New Accounting Pronouncements (continued)

There are no other standards, amendments and interpretations effective beginning 1 January 2012 that are expected to affect significantly the consolidated financial statements of the Group.

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

- 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:
  1. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  2. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  3. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  The adoption of IFRS 9 from 1 January 2015 is mandatory and early application is permitted.
- Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective from 1 January 2013). The improvements consist of changes to five standards three of which are applicable to the Group. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12.
- Amended IAS 19, Employee Benefits (issued in May 2011, effective for periods beginning on or after 1 January 2013).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements, and SIC-12, Consolidation - special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.
- IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities—Non-Monetary Contributions by Ventures. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).

3 New Accounting Pronouncements (continued)

- IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- 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).
- 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).
- Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013).
- Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards - Government Loans (issued in March 2012 and effective for annual periods beginning 1 January 2013).
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).

The 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.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

As at 31 December 2012 most of the Group's subsidiaries are at the exploration, evaluation or early development stage (Note 1). Successful completion of the exploration and evaluation stage as well as further development of mine fields until commencement of commercial production and reaching production levels sufficient to cover incurred costs requires significant financial investments.

As described in Note 1, the exploration stage or the term of subsurface use contracts expire in 2012-2013, and at the date of these consolidated financial statements the authorised government bodies did not confirm extension of these contracts. Furthermore, in 2012, management of the Group decided to cease operations of certain subsidiaries (Note 1).

Net loss of the Group for the year ended 31 December 2012 is Tenge 2,912,665 thousand.

These factors indicate existence of a significant uncertainty which may cast doubt on the Group's ability to continue as a going concern, and accordingly, its ability to realise its assets and settle its liabilities in ordinary course of business.

Management assessed the possible impact the expected termination of operations of KARUAN and Saryarka Mining on the financial position of the Group as at 31 December 2012. In particular, assets of these subsidiaries were tested for impairment and the obligations were assessed for potential unrecorded liabilities including assessing contractual commitments that will become onerous upon liquidation.

Except for the impact of expected termination of operations of KARUAN and Saryarka Mining these consolidated financial statements do not include the adjustments of carrying amounts of assets and liabilities, revenue and expenses, as well as classifications in the statement of financial position which can arise due to this uncertainty, and these adjustments can be material.

Management assumes that the Group will continue as a going concern, and in making such judgment management considered current plans, financial position and access to financial resources of the Group. In particular, the following factors are considered in the assessment of the Groups' ability to continue as a going concern:

- In June 2011, two ore-smelting furnaces with annual output capacity of 31 thousand tonnes of ferrosilicon manganese were put into operation at TMP after reconstruction, which enabled to increase aggregate annual production capacity of the entity to 90 thousand tonnes of ferroalloys. During the year the Group undertook a

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

number of measures to optimise auxiliary processes and to reduce costs in order to increase production efficiency at the entity.

Management plans to reconstruct two existing furnaces in 2013-2014 which will enable to increase aggregate annual production capacity of TMP to 136 thousand tonnes of ferrosilicon manganese. Estimated capital investments required to increase capacity of the plant approximate Tenge 3.7 billion. Currently the Group considers additional sources of funding for implementation of the investment program.

- In 2011, the Group commenced construction of the processing plant at Western Kamys field. Projected annual production capacity of the plant is 250 thousand tonnes of manganese concentrate with manganese content not less than 38%, which will enable to fully secure the demand of TMP in manganese material. Completion of construction of the plant and commencement of production is expected in the end of 2013. Expected cost to complete construction approximates Tenge 1.5 billion.

  During 2011, an authorised government body approved total reserves of oxidised and primary ores of C1 and C2 categories at Western Kamys field of 3.9 million tonnes. Management of the Group expects that total estimated reserves of manganese ores will be increased additionally by 9 million tonnes which are currently classified as off-balance reserves.

  In 2011, the Group commenced works to shift the section of the public road intersecting Western Kamys field, in order to expand the field and to further develop manganese ore reserves. Expected cost to complete the shift of the road approximates Tenge 814 million. Completion of the shift of the section of the public road is expected in the second half of 2013.

  In 2012, the Group entered into an agreement with NCSEC Saryarka JSC on joint development of Arap ferromanganese field in Karaganda oblast. Management of the Group believes that obtaining part of Arap field will strengthen the Group's position among the ferromanganese producers. The processing plant being constructed at Western Kamys field will be utilised for processing of ferromanganese ore of Arap field.

  In the beginning of 2013 management of the Group submitted an application to the Committee on Geology and Subsurface Use for the part of the Central Kamys field neighbouring the Western Kamys field. Based on preliminary estimates the part of the Central Kamys field applied for by the Group contains approximately 3.1 million tonnes of proved and probable manganese ore reserves.

  Effectively the ore body of the Central Kamys field is the continuation of the ore body of the Western Kamys field. Accordingly, management believes that development of the Central Kamys field will not differ from that of the Western Kamys field. As at 31 December 2012 the Committee on Geology and Subsurface Use responded positively to the Group's application for the part of the Central Kamys field and filed the documents to MINT. Management of the Group believes that the obtaining the part of the Central Kamys field will strengthen the Group's position among the ferromanganese producers. The processing plant being constructed will be utilised for processing of ferromanganese ore and upgrading manganese concentrate.

  These projects are partially financed by the borrowings from SB Sberbank of Russia JSC. Currently the Group considers additional sources of financing for implementation of the investment program.

- In 2012, the Group completed acquisition of TEMP (Note 5). TEMP is a vertically integrated ferroalloys producer. Current annual production capacity of TEMP approximates 30 thousand tonnes of ferroalloys. The planned construction of new furnace will enable to increase aggregate annual production capacity to 75 thousand tonnes of ferroalloys. Management expects that acquisition of TEMP will strengthen the position of the Group in the ferroalloys sector.

- In 2011, the State Mineral Resources Reserve Commission of the Republic of Kazakhstan approved the feasibility study of Gornostayevskoye field ore quality requirements. FNP Ertis engaged reputable international companies into development of nickel ore processing technology. In 2011, Wardell Armstrong International prepared an expert conclusion on Gornostayevskoye field, which evidences high probability of economic feasibility of the project. Currently, Wardell Armstrong International is completing the bankable feasibility study.

  Estimated reserves of cobalt-nickel ores at Gornostayevskoye field are considered sufficient to cover previously incurred costs, expected future costs of completion and to generate sufficient profit.

  Projected construction cost of ferronickel plant (Phase 1) with annual processing capacity of 500 thousand tonnes of cobalt-nickel ore and production of 2,500 thousand tonnes of nickel approximates US Dollar 105 million. Currently the Group considers additional sources of funding for implementation of design, preparation and infrastructure works on this project.

- In 2011, the Group entered into the credit facility agreement with SB Sberbank of Russia JSC ("Sberbank of Russia") for the purpose of refinancing of borrowings from Development Bank of Kazakhstan, financing of completion of TMP modernisation and replenishment of working capital. During 2012, the Group signed number of addenda, pursuant to which repayment of the principal amount under non-revolving credit facility was extended until June 2013.

  In May 2013, the Group reached an agreement with Sberbank of Russia on restructuring of the Group loans as follows:

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- Repayment of the principal amount under non-revolving credit facility of US Dollar 10,997 thousand (Tenge 1,657,686 thousand) and US Dollar 59,068 thousand (Tenge 8,903,956 thousand) was extended until May 2016 and May 2023, respectively.
- Repayment of the principal amount on these credit facilities commences in May 2014.

▪ In 2011, the Group entered into agreement with Entrepreneurship Development Fund DAMU JSC ("DAMU"), pursuant to which DAMU subsidises interest of 7% on the portion of borrowing related to financing of TMP modernisation (Note 22).

▪ In 2013, the Group submitted an application for participation in the state program on post-crisis recovery.The main purpose of the program is recovery of solvency of sustainable enterprises. In case the application is approved, the Group will receive subsidy of up to 7% interest on all loans from Sberbank of Russia for 5 years. In April 2013, the Group received a notification on approval for participation in the second stage of the program. Currently the Group is preparing the documentation for the second stage of the program.

▪ Management of the Group expects that sale of Shalkiya Zinc Ltd and SAT Komir will be completed during 2013 (Note 19). Expected proceeds from sale of these two subsidiaries will be used for partial repayment of Group's loans and financing of the capital projects.

▪ The number of unplaced common shares of the Company is 1,753,562,133 shares with average market price of Tenge 71 per share. When necessary the Group plans to realise these instruments via additional placement.

▪ Management also considers other alternative options for raising long-term financing at favourable terms for its investment projects purposes.

Management believes that the Group will have sufficient financing to complete aforementioned exploration, evaluation and development works and other capital projects and start commercial production at contractual areas within the expected timeframe, and therefore can continue its operations as a going concern in the foreseeable future within at least next twelve months.

Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of non-financial assets: property plant and equipment, exploration and evaluation assets, investment property and intangible assets. If any such indication exists, 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 calculation of value in use requires the application of management's estimates and judgments which are deemed appropriate under the current circumstances.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

In accordance with the accounting policy for the purpose of impairment test assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). For the purpose of assessing impairment indications and, if necessary, for performing impairment test management identified the following main cash-generating units ("CGUs"):

Cash generating unit	Entity	Description	Type of non-financial assets	Carrying amount before impairment
TMP	TMP (ferroalloys)	Production of ferroalloys	Property, plant and equipment	14,145,753
Western Kamys	Arman 100 (manganese)	Extraction of manganese ore at Western Kamys field	Property, plant and equipment, exploration and evaluation and intangible assets	2,569,733
Chemical-metallurgy plant	TEMP	Production of ferroalloys and calcium carbide	Property, plant and equipment	5,285,818
Bogach	TEMP	Extraction of manganese ore at Bogach field	Property, plant and equipment and intangible assets	2,703,896
Yesymzhal	TEMP	Extraction of manganese ore at Yesymzhal field	Property, plant and equipment and intangible assets	1,229,187
South-Topar Mine	TEMP	Extraction of limestone at the South-Topar field	Property, plant and equipment and intangible assets	469,840
Akmola branch	TEMP	Industrial warehouse complex in Astana city	Investment property	2,853,372
Shalkiya	Shalkiya Zinc Ltd (zinc)	Lead-zinc field Shalkiya	Assets of disposal group	21,929,691
Kumyskuduk Verkhnesokurskoe	SAT Komir (coal)	Extraction of brown coal	Assets of disposal group	2,983,817
Gornostayevskoye	Kaznickel / FNP Ertis (nickel)	Exploration of cobalt-nickel ore at Gornostayevskoye field	Property, plant and equipment and exploration and evaluation assets	1,950,744
Sivas	SAT&Co Holding (chrome)	Exploration of chrome ore in Sivas region	Exploration and evaluation assets	1,656,189
Denizli	SAT&Co Holding (chrome)	Exploration of chrome ore in Denizli region	Exploration and evaluation assets	658,566
Tuyebay-Syurtysu	Saryarka Mining (manganese)	Exploration of manganese ore at Tuyebay-Syurtysu field	Exploration and evaluation assets	159,123
Aitkokshe	KARUAN (manganese)	Exploration of manganese ore at Aitkokshe field	Exploration and evaluation assets	91,997

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

TMP

In 2012, the selling price of ferrosilicon manganese declined as a result of a wider decline in market prices for manganese products. Furthermore, actual volumes for 2012 and forecasted volumes for 2013 declined as compared to forecasts used in the end of 2011.The main reason for decline of forecasted volumes is insufficient volume of concentrate with manganese content necessary to maintain economically feasible production of ferroalloys. As a result, at 31 December 2012 two out of four furnaces were suspended. Management considered these factors as indications of possible impairment of non-financial assets of TMP and conducted an impairment test as of 31 December 2012.

The recoverable amount of non-financial assets of TMP was determined based on fair value less costs to sell. The fair value of this CGU except for land was determined using the discounted future cash flow method. In this calculation management used cash flow projections based on the strategic planning models of the Group and operating budgets, modified as appropriate to meet the requirements of IAS 36, and approved by management. The fair value of land was determined based on its market value.

Principal assumptions having a significant impact on projected future cash flows include the following:

- Production volume. Annual production capacity of each of the working furnaces #3 and #4 approximates 31 thousand tonnes of ferrosilicon manganese. The reconstruction of the suspended furnaces #5 and #6 will enable increasing aggregate annual production capacity of TMP to 136 thousand tonnes of ferrosilicon manganese. Estimated capital investments required to increase capacity of the plant approximate Tenge 3.7 billion.
- Sales volume. Management determined that the forecasted demand for products which was based on the expected market development would enable the Group to utilise full production capacity of TMP.
- Expected ferroalloys price. Ferrosilicon manganese prices were projected applying respective growth indices to prices under existing contracts. The forecasted price for 2013 is US Dollar 1,240 per tonne of ferrosilicon manganese.
- Cost of manganese concentrate was projected based on median prices from publicly available broker forecasts for the year 2013 and applying production price index as a growth rate. The forecasted cost of manganese concentrate for 2013 is US Dollar 4.5 per 1% of manganese content.
- Other production costs were projected based on past performance and existing contracts.

Cash flows were discounted applying discount rate of 15.2 %per annum which was based on the weighted average cost of capital of the Group adjusted for risks specific to TMP.

As a result of impairment test management came to conclusion that there is no impairment of non-financial assets as of December 31 2012 in TMP.

Presented below is the sensitivity analysis, which demonstrates amount of possible impairment at different levels of price of ferrosilicon manganese, forecasted production volume and forecasted demand and cost of manganese concentrate (assuming all other variables held constant):

In thousands of Kazakhstani Tenge	**Impairment loss**
Price of ferrosilicon manganese (-2%)	851,373
Price of ferrosilicon manganese (-5%)	4,549,391
Production and sales volume of ferrosilicon manganese (-5%)	no
Production and sales volume of ferrosilicon manganese (-10%)	1,613,489
Cost of manganese concentrate (+2%)	no
Cost of manganese concentrate (+5%)	326,476

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Western Kamys

In 2012, the Group commenced construction of the processing plant aimed to increase manganese content in concentrate, the end product of this CGU. Production of the higher content manganese concentrate will enable to increase its sales price. Construction of the plant commenced later than management had originally anticipated due to delays in obtaining approval from the state authorities and in obtaining the necessary financing. Management concluded that this fact coupled with decrease in prices for manganese concentrate as a result of a wider decline in market prices for manganese products is an indication of possible impairment of non-financial assets of this CGU and conducted an impairment test as of 31 December 2012.

The recoverable amount of non-financial assets of the Western Kamys CGU was determined based on value in use calculation. In performing this calculation management used pre-tax cash flow projections based on the strategic planning models and operating budgets of Arman 100, modified as appropriate to meet the requirements of IAS 36, and approved by management.

Cash flows were discounted applying pre-tax interest rate of 16% per annum which was based on the weighted average cost of capital of the Group adjusted for risks specific to this CGU.

Presented below are the results of impairment test:

In thousands of Kazakhstani Tenge	
Carrying amount of property, plant and equipment, exploration and evaluation and intangible assets	2,569,733
Recoverable amount	2,087,040
Impairment loss	**482,693**

The impairment loss is recorded as follows:

Consolidated statement of financial position item	Note	Presented in consolidated statement of comprehensive income	Note	Impairment loss
Property, plant and equipment	8	Cost of sales	26	335,519
Exploration and evaluation assets	9	Exploration and evaluation expenses	28	63,141
Intangible assets	11	Cost of sales	26	84,033
Total				**482,693**

Principal assumptions having a significant impact on forecasted future cash flows include forecast of manganese concentrate prices, forecasted demand for products, production costs and capital expenditures which the Group has contractually committed. Manganese concentrate prices were projected based on median prices from publicly available broker forecasts for the year 2013 and applying production price index as a growth rate. Forecasted demand for products was determined based on the expectations of ferroalloys market development. Production costs and committed capital expenditures are projected based on past performance and existing contracts.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Presented below is the sensitivity analysis, which demonstrates amount of possible impairment at different levels of price of manganese concentrate, forecasted demand for products, production costs and committed capital expenditures (assuming all other variables held constant):

In thousands of Kazakhstani Tenge	**Impairment loss**
Price for manganese concentrate (-2%)	928,377
Price for manganese concentrate (-5%)	1,567,314
Manganese concentrate sales volume (-10%)	2,474,091
Manganese concentrate sales volume (-15%)	2,569,733
Production costs (+5%)	1,306,307
Production costs (+10%)	2,129,921
Capital expenditures (+10%)	747,527
Capital expenditures (+20%)	1,012,361

Furthermore, in 2012, management concluded that there was an impairment of individual property, plant and equipment items: certain vehicles and production equipment related to this CGU require capital repair at estimated cost of Tenge 31,889 thousand. Management concluded that cost of repair required for these property, plant and equipment items approximates the amount of impairment of these assets and recorded it as impairment loss in 2012 charged to cost of sales (Note 26) and general and administrative expenses (Note 29) in amount of Tenge 31,864 thousand and Tenge 25 thousand, respectively.

Chemical-Metallurgy Plant, Bogach, Yesymzhal, South-Topar Mine and Akmola branch

Property, plant and equipment, investment property and intangible assets of these CGUs were measured at fair value at the acquisition date (Note 5) by the independent professional appraiser. Fair value of property, plant and equipment, investment property and intangible assets was measured taking into account recoverability of these assets using the discounted cash flows method. The Group concluded that cost to sell these assets is not significant, and, therefore, their fair value assessed at the acquisition date approximates their recoverable amount. As at 31 December 2012 management assessed the principal assumptions used in future cash flows forecasts and concluded that there were no facts which would indicate deterioration of these assumptions and result in decrease of the recoverable amount of property, plant and equipment, investment property and intangible assets, and, accordingly, concluded that there were no indications of impairment of assets of this CGU.

Shalkiya

All assets of Shalkiya CGU were included in disposal groups classified as held for sale (Note 19) in conjunction of the Group's plan to sell Shalkiya Zinc Ltd in nearest future (Note 1).

At 31 December 2012 management of the Group assessed fair value less cost of selling of this CGU. Fair value of the CGU was measured using the discounted cash flows method. In performing this calculation management used cash flow projections until expiry of the subsurface use contract between MINT and Shalkiya Zinc Ltd for production of complex ores at the Shalkiya field until 2046.

Cash flow projections include capital expenditures required for re-commencement of production activity. Management of the Group assumes that the buyers (investors) of Shalkiya Zinc Ltd will provide sufficient financing of capital expenditures required for re-commencement of commercial production.

Principal assumptions having a significant impact on projected future cash flows include the following:

- Zinc and lead price forecasts. Zinc and lead prices forecasts are based on publicly available long-term broker forecasts for the period of 2013-2025 where zinc prices vary from US Dollar 2,205 per ton in 2013 to the peak price of USDollar4,299 per ton in 2018 which subsequently decline to USDollar3,461 per ton in 2025. For the price projections for the period of 2026-2046 management used the broker forecast price in 2025 and applied the long-term price index of 3% per annum as the growth rate. Management projects an average gross margin of 28% at zinc market price of US Dollar 4,145 per ton expected in 2017 (expected year of commencement of

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

commercial production). All other variables held constant, a decrease of over 10% in zinc and lead prices could lead to full impairment of the Shalkiya CGU assets.

- Production costs. Production costs were projected based on technical project prepared by the independent engineering consultants applying the Kazakhstan production price index varying from 2.7% to 5.0% per annum as the growth rate.
- Estimated capital expenditures on construction of the new processing plant and expansion of the Shalkiya mine were determined based on updated technical project prepared by the independent engineering consultants. Expected capital expenditures are as follows:
  - completion of construction of the new processing plant – Tenge 20,850 million;
  - expansion of the Shalkiya mine – Tenge 49,830 million;
  - replacement of mining equipment – Tenge 10,800 million.

  The new processing plant is to be equipped with innovative processing technology and equipment. Projected annual capacity of the new processing plant is 2 million tons, while the actual capacity of the old processing plant was 440 thousand tons. Also, the new processing plant is built at the location of the Shalkiya mine and therefore, unlike the old processing plant would not require transportation of the ore from the mine to the plant and related transportation costs.
- Expected time of recommencement of operations. Management expects that subject to availability of financing construction of the new processing plant will commence in January 2014. Estimated time required to complete the construction is thirty six months. Management expects that Shalkiya Zinc Ltd will recommence its operations upon completion of construction of the new processing plant in January 2017.

Cash flows were discounted applying pre-tax interest rate of 19% per annum which was based on the weighted average cost of capital of the Group adjusted for risks specific to the Shalkiya CGU.

As a result of the impairment test management concluded that fair value of the assets of the Shalkiya CGU exceeds their carrying value. The Group concluded that costs to sell the assets are not material. Accordingly in these consolidated financial statements assets of Shalkiya Zinc Ltd disposal group at 31 December 2012 are stated at their carrying value (Note 19).

However, fair value of the assets of this CGU substantially depends on availability of sufficient financing for the capital expenditures required to recommence commercial production and the outcome of negotiations of Shalkiya Zinc Ltd with MINT on revised working program for the subsurface use contract (Note 37).

Kumyskuduk Verkhnesokurskoe

On 21 December 2012, the Group entered into the agreement with individual, citizen of the Republic of Kazakhstan, on sale of 100% shares of SAT Komir (Note 1). Management of the Group expects sale will be completed in 2013. Accordingly all assets of Kumyskuduk Verkhnesokurskoe CGU are included in SAT Komir disposal group classified as held for sale (Note 19).

The Group determined that total consideration for 100% shares of SAT Komir as stipulated in the share purchase agreement which comprises of cash in the amount of Tenge 752,450 thousand and obligation of the buyer to assume the Group's debt payable to BTA Bank JSC ("BTA Bank") with the nominal value of Tenge 3,371,112 thousand (Note 22) represents fair value of Kumyskuduk Verkhnesokurskoe CGU, which is substantially higher that the carrying value of assets of this CGU. Management concluded that costs to sell the CGU are not material. Accordingly in these consolidated financial statements assets of disposal group SAT Komir at 3 December 2012 are stated at their carrying amount (Note 19).

Gornostayevskoye, Sivas and Denizli.

As of 31 December 2012 this CGU was at exploration stage. Accordingly, management assessed existence of indications of impairment of exploration and evaluation assets of this CGU in accordance with the requirements of IFRS 6, Exploration for and Evaluation of Mineral Resources.

In 2012, the Group continued exploration and evaluation activities at these contractual areas and planned to invest in further exploration and evaluation works. As of 31 December 2012 the Group did not identify indications that discovery of commercially viable reserves in these areas in the current economic and operational conditions is unlikely. There are also no facts indicating that current estimates of mineral reserves made as a result of additional exploration during 2010-2012 are lower than initial estimates. Accordingly, management of the Group concluded that there are no indications of impairment of exploration and evaluation assets of CG Gornostayevskoe, Sivas and Denizli.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Tuyebay-Syurtysu and Aitkokshe

As described in Note 1, the Group decided to cease exploration and evaluation activities at Tuyebay-Syurtysu area and Aitkokshe field, and accordingly cease operations of Saryarka Mining and KARUAN. Accordingly the Group performed impairment test of these CGUs at 31 December 2012. As a result management concluded that the recoverable amount of the assets determined as fair value less cost to sell is Tenge 2,678 thousand. Accordingly the Group recognised loss on impairment of exploration and evaluation assets, property, plant and equipment and intangible assets of Tenge 248,442 thousand and recorded it within exploration and evaluation expenses (Note 28) and general and administrative expenses (Note 29) in the amount of Tenge 150,289 thousand and Tenge 98,153 thousand, respectively.

Financial guarantees

As of 31 December 2012, the Group is the guarantor or co-borrower with respect to the liabilities of the Group's related parties Alsai LLC LLP, Shymkent Munai Onimderi JSC, Flegont LLP, Luxury Rest Inc. LLP and TOT Mani LLC as well as ultimate controlling party Mr. Kenges Rakishev in the aggregate amount of Tenge 26,012,440 thousand (Note 37). The Group determined that at the date of these consolidated financial statements there were no indications that these entities would not be able to settle their obligations, which may otherwise require the Group to repay the liabilities of these entities.

Fair value assessments in business combinations

An assessment of fair value of property, plant and equipment, investment property and intangible assets of TEMP acquired in 2012 (Note 5) was performed by the independent professional appraiser with recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. The fair values of the assets were determined as follows:

- Fair value of real estate, machinery and equipment for which the active market exists, was determined using market approach (based on observable market prices for similar assets).
- Fair value of specialised property, plant and equipment was determined using cost approach (based on depreciated replacement cost). In determining fair value recoverability of these assets was assessed using the discounted cash flows method.
- Fair value of intangible assets represented by the subsurface use rights for Bogach and Yesymzhal fieds was determined as a residual value of the discounted cash flows expected to be generated less fair value of property, plant and equipment attributable to these fields.
- Fair value of investment property represented by industrial warehouse complexes in Astana, Karaganda and Temirtau cities was determined using the income approach (direct capitalisation method) and market approach (based on observable market prices for similar assets).

Date of acquisition of subsidiaries

In 2011, the Group entered into the share purchase agreements on acquisition of the controlling interest in TEMP. Pursuant to these agreements the government's waiver to exercise its pre-emptive right for acquisition of TEMP and approvals of other government authorities were the prerequisites to a completion of the transaction. At 31 December 2011, the Group had not received the government's waiver to exercise its pre-emptive right for acquisition of this entity and approvals of other government authorities.

Management concluded that receipt of the government's waiver and approvals were substantial conditions in determining the date of obtaining control over TEMP rather than a perfunctory requirement. Accordingly, management concluded that as of 31 December 2011 the Group did not have power to control financial and operating policies of TEMP despite the fact that all other terms of the agreements including payment of the consideration were fulfilled, and, therefore, assets and liabilities, and results of this entity were not included in 2011 consolidated financial statements. The Group received the government's waiver to exercise its pre-emptive right for acquisition of TEMP and approvals of other government authorities in March 2012. Accordingly, acquisition of TEMP was recorded in 2012 (Note 5).

Obligation on payment of commercial discovery bonus and reimbursement of historical costs

In accordance with the terms of the subsurface use contracts the Group's subsidiaries (subsurface users) (Note 1) are required:

- to pay the commercial discovery bonus at the rate of 0.1% of recoverable mineral reserves, provided that commercial discovery is confirmed by an authorised state body;

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- to reimburse the historical costs related to the geological information and other costs incurred by the Republic of Kazakhstan for exploration of the contractual territories before the transfer of subsurface use rights to the Group. Historical costs are reimbursed upon commencement of the commercial production.

The Group recognises the commercial discovery bonus and historical costs reimbursement obligations for those contracts where commercial discovery is assessed as highly probable. In assessment of probability of commercial discovery the Group considers the results of exploration works, test production and estimates of mineral reserves by independent engineers.

In 2011, management of the Group concluded that there is a high probability of commercial discovery in respect of the exploration contract of cobalt-nickel ores at Gornostayevskoye field and the exploration contract of ferromanganese ores at Tuyebay-Syurtysu area. The Group recognised obligations for payment of commercial discovery bonus on Gornostayevskoye and Tuyebay-Syurtysu fields in the amount of Tenge 803,405 thousand (Note 23) and Tenge 10,300 thousand (Note 24), respectively, and for reimbursement of historical costs in the amount of Tenge 85,015 thousand and Tenge 12,062 thousand, respectively (Note 23).

In 2012, management revised estimated cost of obligations for payment of commercial discovery bonus and for reimbursement of historical costs in respect of the exploration contract of cobalt-nickel ores at Gornostayevskoye field, mainly due to revision of internal assessment of cobalt-nickel reserves and current market prices for minerals. At 31 December 2012 the carrying value of the obligations for payment of commercial discovery bonus and for reimbursement of historical costs in respect of this contract is Tenge 529,519 thousand and Tenge 80,743 thousand, respectively (Note 23). Decrease of the obligations for payment of commercial discovery bonus and for reimbursement of historical costs due to change in estimate was credited against the cost of the corresponding exploration and evaluation assets (Note 9).

In early 2012, the Group settled the obligation on payment of commercial discovery bonus in respect of the contract on exploration of ferromanganese ores in Tuyebay-Syurtysu area. At 31 December 2012 management of the Group concluded that in conjunction with the decision to cease operations of Saryarka Mining commercial discovery in respect of the contract on exploration of ferromanganese ores at Tuyebay-Syurtysu area is not highly probable, and that the Group does not plan to announce additional commercial discovery until the date of expiry of the subsurface use contract. Accordingly, in 2012, the Group derecognised obligation for reimbursement of historical costs (Note 23) and wrote off the corresponding exploration and evaluation assets (Note 9).

Investments recognised at cost

The Group owns a 51% interest in Taonan City Jinsheng Metallurgical Products Co. Ltd., ("Taonan"), Baicheng Jinsheng Nickel Industry Co. Ltd. ("Baicheng") and Ulanhot Jinyuanda Heavy Chemical Industry Co. Ltd. ("Ulanhot") which own metallurgical plants in the People's Republic of China. In accordance with share purchase agreements entered into by the Group with Tianjin Jinsheng Metallurgical Products Co. Ltd. ("TMJP") and the articles of association of the entities, the Group has majority voting rights, and, consequently, formally has the ability to make decisions which determine the financial and operational policies of the entities. However, since acquisition date management was unable to ensure implementation of or influence such decisions, and, accordingly, management concluded that the Group does not have control or significant influence over these entities.

In 2010, Taonan, Baicheng and Ulanhot entered into a trust management agreement with TJMP. The agreement was effective from 1 February 2011. Since the date of the trust agreement the Group has also lost control over its subsidiary Jinsheng SAT, in which the Group has 51% ownership interest.

At 31 December 2012 and 31 December 2011 investments in these entities were accounted for as investments measured at cost (Note 13).

In 2011 management of the Group concluded that the probability of receiving dividends in future from the above companies is low, and determined that the recoverable amount of the investments as of 31 December 2011 is nil. As a result, in 2011 the Group recognised respective impairment loss of Tenge 1,039,383 thousand.

Management assessed the existence of factors in 2012 which would indicate the positive changes in assumptions that were used in determining the recoverable amount of the investments and resulted in recognition of impairment loss on the investments in prior periods and concluded that no such factors exist. Accordingly, as at 31 December 2012 investments at costs are fully impaired.

As of 31 December 2012 management could not reliably estimate fair value of these investments. Taonan, Baicheng and Ulanhot and Jinsheng SAT have not published recent financial information on their operations, their shares are not quoted, and their recent trade prices are not publicly accessible.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Social and training obligations

In accordance with the terms of subsurface use contracts, the Group is obliged to finance certain social infrastructure and training projects on annual basis. The fulfilment of these obligations can be done in the form of cash payments or contributions of an equivalent value. The obligations are the greater of a fixed amount or a defined percentage of the capital expenditures for the year. These projects are aimed at satisfying local community's needs and funds are generally spent on local projects for the population living in the area of exploration and production activities.

Management of the Group believes that even though the subsurface use contracts specify a minimal amount that has to be spent for social obligations, the funding of these projects is not substantially different than the funding of other costs of the exploration and production and should therefore be recorded when incurred. Management believes that the social obligations are directly related to the exploration and production activities and are not substantially different than the obligations for the minimum exploration or the annual work programs. This view is supported by the terms of the subsurface use contracts which do not obligate the Group to fund any social projects after the cancellation or expiration of the contract. Therefore, no liabilities for social and training obligations for future years were recognised in these consolidated financial statements as of 31 December 2012 and 31 December 2011.

Provision for asset retirement and site restoration obligation

In accordance with the terms of the subsurface use contracts and environmental legislation, the Group has a legal obligation to decommission its mining and other production assets, and restore a landfill site after its closure. Provision for asset retirement and waste polygons restoration is recognised for the future decommissioning and removal of production assets at the end of their economic lives. Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past mining activities.

The provision for mining assets retirement and waste polygons restoration is based on the Group's interpretation of the current environmental legislation in the Republic of Kazakhstan supported by the feasibility study and engineering researches in accordance with current restoration standards and techniques. The provision is estimated on the basis of current legal and constructive requirements, technology and price levels. Since actual costs for retirement and restoration can differ from estimates due to changes in environmental regulatory requirements and interpretation of the legislation, technology, prices and conditions, and the fact that such costs can relate to future periods, the carrying value of the provision is regularly reviewed and adjusted for any changes.

Significant judgments used in such estimations include the estimate of discount rate and timing of cash flows. Discount rate is applied to the nominal costs the management expects to spend on mining assets retirement and waste polygons restoration in the future. Accordingly, management's estimates based on current prices are inflated using the expected long-term inflation rate (2012: 5.00%-5.60%; 2011: 4.50%-8.40% depending on the date of mining assets retirement and waste polygons restoration), and subsequently discounted using discount rate. The discount rate reflects the current market estimates of the time value of money and those risks specific to the liability not reflected in the best estimate of the costs. The discount rate used by the Group's companies for calculation of provision as at 31 December 2012 varies from 4.63% to 7.50% (2011: 3.53% – 9.91%) depending on the estimated date of mining assets retirement and waste polygons restoration.

At 31 December 2012, the carrying value of site restoration provision was Tenge 1,125,094 thousand (2011: Tenge 744,918 thousand) (Note 21).

Estimated useful life of mining assets

Mining assets, classified as part of property, plant and equipment, are depreciated over the respective life of the mine using the unit of production (UOP) method based on proved and probable mineral reserves. Assumptions, which were valid at the initial (preceding) determination of mineral reserves, may change as new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future periods is different from current forecasted production based on proved and probable mineral reserves, which would generally arise as a result of significant changes in any of the factors or assumptions used previously in estimating mineral reserves. These factors could include:

- changes in proved and probable mineral reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- changes in capital, operating, processing and restoration costs, discount rates and foreign exchange rates, which could adversely affect the economic viability of mineral reserves.

Management reviews the appropriateness of assets' useful economic lives at least once a year; any changes could affect prospective depreciation rates and asset carrying values. As at 31 December 2012 the carrying amount of mining assets was nil (2011: Tenge 559,863 thousand) (Note 8).

Useful lives of other property, plant and equipment

The majority of other property, plant and equipment is depreciated using the straight-line method over their estimated useful lives. The estimation of the useful lives of these items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits, associated with these assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminishment of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Impairment of receivables

Specific provisions for accounts receivable are based on the regular assessment of their collections, overdue status and past experience. Management believes that provision for impairment of receivables as at 31 December 2012 and 31 December 2011 are sufficient and represent management's best estimate of receivables that will not be collected (Notes 14, 16 and 17).

Provision for inventories impairment

Inventories are recorded at the lower of cost and net realisable value. The Group recognises provision for impairment of inventories on the basis of regular stock count results and analysis of slow-moving, obsolete and other inventories where the net realisable value falls below their cost. The provision is recorded in profit or loss for the year. Management believes that impairment provisions made as at 31 December 2012 and 31 December 2011 are sufficient and represent management's best estimate of impaired inventories (Note 15).

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

5 Business Combinations

Over recent years the Group made consecutively a series of strategic acquisitions in the metals and mining industry.

Acquisition of TEMP

In 2011 the Group entered into the agreements with National Company Social-Entrepreneurial Corporation Saryarka ("SEC Saryarka") and three individuals for acquisition of 75.45% interest in TEMP. Total acquisition cost established in the agreements was Tenge 924,979 thousand.

According to the terms of the agreement with SEC Saryarka the Group accepted commitment to fulfil within three years after the date of the acquisition the investment program including settlement of payables of TEMP, construction of the new

5 Business Combinations (continued)

furnace complex, capital repair of the production infrastructure and renewal of the equipment for the total amount of Tenge 12 billion.

According to the Subsurface Use Law of the Republic of Kazakhstan dated 24 June 2010, the government of the Republic of Kazakhstan holds a statutory right of pre-emption over any transfers of any subsurface use interest.

In accordance with the agreements, the government's waiver to exercise its pre-emptive right for acquisition of TEMP and obtaining approvals of the government authorities were the prerequisites to a completion of the transaction. Management of the Group concluded that receipt of the government's waiver approvals were the substantial conditions in obtaining control over TEMP rather than a perfunctory requirement. On 30 March 2012, the Group received a notification on the government's refusal to exercise its pre-emptive right and approvals of the government authorities. Accordingly, management determined that acquisition date is 30 March 2012. The Group obtained control through its ability to cast a majority of votes in the board of directors of TEMP.

TEMP is the vertically-integrated company major divisions and activities of which are as follows:

- Chemical-Metallurgy Plant ("CMP") in Temirtau city in Karaganda oblast – production of carbide calcium, ferrosilicon manganese and other products.
- Manganese Mine Department ("Manganese MD") –extraction of manganese ore at Bogach and Yesymzhal fields for further production of ferrosilicon manganese at CMP.
- South-Topar Mine Department ("STMD") –extraction of limestone at South-Topar field for further sale to third parties and production of carbide calcium at CMP.
- Akmola branch – industrial warehouse complex in Astana city being leased.

Acquisition of the vertically-integrated company with the divisions on extraction of manganese ore and production of ferrosilicon manganese will allow the Group to strengthen its position in the ferroalloys sector.

Details of the acquired assets and liabilities and arising negative goodwill are as follows:

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	7,463,909
Investment property	2,832,370
Investment at cost	482,000
Intangible assets	2,150,986
Other non-current assets	204,836
Inventories	1,163,386
Trade and other receivables	878,237
Other current assets	782,712
Cash and cash equivalents	19,267
Total assets	**15,977,703**
Deferred income tax liability	1,976,937
Site restoration provision	556,750
Borrowings	2,019,500
Trade and other payables	2,987,277
Total liabilities	**7,540,464**
Total net assets	**8,437,239**
Less: non-controlling interest	(2,070,498)
Bargain purchase gain (negative goodwill)	(5,441,762)
Total purchase consideration	**924,979**
The Group's payable to the individual shareholders	(110,000)
Less: cash and cash equivalents of acquired subsidiary	(19,267)
Outflow of cash and cash equivalents on acquisition	**795,712**

5 Business Combinations (continued)

Assessment of fair value of property, plant and equipment, investment property and intangible assets was performed by an independent professional appraiser with the recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. The basis for assessment of fair value is described in Note 4.

The non-controlling interest represents share in net assets of TEMP attributable to owners of non-controlling interest.

Bargain purchase gain (negative goodwill) arises due to the fact that during difficult economic conditions the previous shareholders of TEMP did not have sufficient financing to ensure financial stability of TEMP given its substantial total liabilities and implement the investment program required to achieve economically viable level of extraction of manganese ore and production of ferroalloys, calcium carbide and other products. This allowed the Group to acquire TEMP at a price lower than its fair value.

TEMP contributed revenue of Tenge 4,960,467 thousand and loss of Tenge 943,955 thousand to the Group for the period from the date of acquisition to 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's profit for 2012 would have been decreased by Tenge 291,947 thousand and revenue for 2012 would have been increased by Tenge 1,839,845 thousand.

The fair value of trade and other receivables is Tenge 878,237thousand and includes advances given to suppliers with fair value of Tenge 12,378 thousand and other receivables with fair value of Tenge 575 thousand.

Acquisition of Axem Investment

On 14 December 2012, the Group acquired 100% of the charter capital of Axem Investment and obtained control through its ability to cast a majority of votes in the general meeting of owners of Axem Investment. The main activity of Axem Investment is processing of phosphorus-containing waste dumps, production and sale of mineral fertilisers and chemical products.

Details of the assets and liabilities acquire and goodwill arising are as follows:

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	5,164
Inventories	21,239
Trade receivables	22,736
Other current assets	688
Cash and cash equivalents	138
Total assets	**49,965**
Loans	5,000
Trade payables	21,507
Total liabilities	**26,507**
Total net asset	**23,458**
Goodwill arising from the acquisition	6,542
Total acquisition cost	**30,000**
The Group's payable as the acquisition cost	(30,000)
Less: cash and cash equivalents of acquired subsidiary	(138)
Inflow of cash and cash equivalents on acquisition	**138**

Financial results of Axem Investment from the acquisition date to 31 December 2012 were insignificant to these consolidated financial statements.

6 Segment Information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Company.

(a) Description of operating segments

The Group's operating segments have been aggregated into business segments as follows:

- Head office: the segment is represented by the operations of the head office of the Group, including acquisitions and disposals of investment assets and securities.
- Manganese: the segment represents the three mining companies (Arman 100, Saryarka, KARUAN) (Note 1) involved in the exploration of manganese ore deposits, extraction of manganese ore and production of manganese concentrate.
- TMP: the segment is represented by TMP (processing of manganese and ferromanganese ores and production of ferroalloys).
- TarEP: the segment is represented by TarEP (production and sale of electrode mass and repair paste).
- TEMP: the segment is represented by TEMP (extraction and production of manganese and limestone ores, production of calcium carbide and ferroalloys).
- Zinc: the segment is represented by Shalkiya Zinc NV and Shalkiya Zinc Ltd (Note 1), involved in exploration, production and complex processing of lead-zinc ores. In conjunction of the Group's plan to dispose of Shalkiya Zinc Ltd in the nearest future financial results of this segment are presented as discontinued operations (Note 35).
- Nickel: the segment represents FNP Ertis and Kaznickel (Note 1), which are involved in exploration of cobalt and nickel ores at Gornostayevskoye field and development of the processing project.
- Chrome: the segment represents SAT&Co Holding and its subsidiaries, which are involved in exploration of chrome ore.
- Petrochemicals: the segment is represented by a joint venture KLPE and associate KPI (Note 1), involved in construction of the integrated petrochemical complex for production of polypropylene and polyethylene in Western Kazakhstan.
- All other segments: the segment includes holding companies and other entities involved in non-core activities of the Group, which are not material for the Group as a whole.

During 2012 the composition of operating segments changed as a result of the following changes in the structure of the Group:

- In 2012 the Group completed the acquisition of TEMP (Note 5). TEMP represents the vertically integrated entity comprising of extraction divisions Manganese MD (extraction of manganese ore) and STMD (extraction of limestone) and production division CMP (production of ferrosilicon manganese and carbide calcium).

  Currently the Management Board of the Company considers TEMP as the single operating segment; however following integration of TEMP into the Group the structure of management of the separate divisions could change which will lead to revision of the segment information.
- In 2011 the subsidiaries TMP, TarEP and TH SAT represented single segment 'Ferroalloys'.

  During 2012,upon re-organisation into the separate legal entity, executing internal restructuring and entering into the contracts for sale of products and shipment of raw materials and electricity TarEP started to carry out its operations on production and sale of electrode mass independently of TMP. Since 2012 the Management Board of the Company regularly reviews the separate financial information of TarEP.

  In 2011 TH SAT sold primarily the goods produced by TMP. Since the acquisition of TEMP in 2012 TH SAT also sells the products of TEMP (ferrosilicon manganese and calcium carbide). The Management Board of the Company considers the operations of TH SAT on sales of products of TMP and TEMP as part of operations of these segments rather than as a separate activity and accordingly a separate segment.
- In 2012 following singing the agreement on sale of SAT Komir the Management Board ceased assessment of the results of this subsidiary which previously represented the segment 'Coal'.
- In 2012 the Group disposed SAT Trade (Note 1) main activity of which was purchase and processing of crude oil and sales of oil products which previously represented the segment 'Oil products'.

The segment information for 2011 was revised accordingly.

6 Segment Information (continued)

(b) Factors that management uses to identify the reporting segments

Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires its target market and its technologies.

(c) Measurement of segment profit or loss, assets and liabilities

The CODM measures the performance of each segment based on adjusted earnings before interest, income tax, depreciation and amortisation ('EBITDA'). This measurement basis excludes the effects of any bargain purchase gains, losses on impairment of investments, property, plant and equipment, exploration and evaluation assets and intangible assets, losses on write-down of inventories to net realisable value and impairment of inventories, income on government grants and other non-recurring items.

Segment assets consist of gross inventory, gross trade and other receivables (current and non-current), property, plant and equipment, investment property, exploration and evaluation assets, advances for non-current assets and for exploration and evaluation assets, investments in associates and investments at cost, non-current assets and disposal groups classified as held for sale. Segment liabilities consist of financial trade and other payables, advances received from customers and borrowings.

Internal charges between segments have been reflected in the performance of each reportable segment. The revenue generated from external parties reported to the CODM is measured in a manner consistent with that in the consolidated statement of comprehensive income.

6 Segment Information (continued)

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

In thousands of Kazakhstani Tenge	Head office	Manga-nese	TMP	TarEP	TEMP	Zinc	Nickel	Chrome	Petro-chemicals	All other segments	Intersegment eliminations	Total
Revenue	-	280,870	7,836,161	844,235	6,735,404	-	-	-	-	-	-	15,696,670
Intersegment revenue	-	74,901	930,020	212,955	-	-	-	-	-	-	(1,217,876)	-
Segment revenue	**-**	**355,771**	**8,766,181**	**1,057,190**	**6,735,404**	**-**	**-**	**-**	**-**	**-**	**(1,217,876)**	**15,696,670**
EBITDA	**1,070,183**	**(417,910)**	**(14,158)**	**(100,027)**	**(558,382)**	**(880,351)**	**(133,620)**	**(23,569)**	**(435,036)**	**(482,924)**	**-**	**(1,975,794)**
Government grant income	-	-	218,623	-	-	-	-	-	-	-	-	218,623
Bargain purchase gain	-	-	-	-	5,441,762	-	-	-	-	-	-	5,441,762
Impairment of exploration and evaluation assets	-	(213,430)	-	-	-	-	-	-	-	-	-	(213,430)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(37,570)	(689,766)	(1,567,721)	(33,107)	(902,571)	-	(3,645)	(497)	-	4,898	-	(3,229,979)
Losses from write-down of inventories to net realizable value and impairment of inventories	-	-	(283,008)	-	(18,118)	-	-	-	-	-	-	(301,126)
Loss for the period from discontinued operations												1,047,460
Finance income												467,490
Finance costs												(4,398,885
Loss before income tax												**(2,943,879)**
Income tax benefit												1,010,954
Loss for the year from continuing operations												**(1,932,925)**

The Group's share in the loss of KPI and KLPE in the aggregate amount of Tenge 435,036 thousand and profit of Kazgeocosmos of Tenge 28,922 thousand was included in EBITDA of 'Petrochemicals' segment and 'All other segments', respectively.

6 Segment Information (continued)

In thousands of Kazakhstani Tenge	**Head office**	**Manga-nese**	**TMP**	**TarEP**	**TEMP**	**Zinc**	**Nickel**	**Chrome**	**Petro-chemicals**	**All other segments**	**Intersegment eliminations**	**Total**
Capital expenditures:												
Additions to property, plant and equipment (excluding capitalised borrowing costs)	2,728	1,701,054	625,768	1,115	1,097,594	308,646	126,337	5,746	-		-	3,868,988
Additions to exploration and evaluation assets	-	(1,560)	-	-	-	-	100,373	354,596	-	-	-	453,409
Segment assets	**28,695,918**	**2,753,012**	**17,764,685**	**305,188**	**12,608,830**	**21,929,691**	**2,407,181**	**2,345,258**	**6,623,284**	**10,130,226**	**(26,595,578)**	**78,967,695**
Reconciliation												
Intangible assets												2,063,609
Deferred income tax assets												867,881
Unallocated other non-current assets												1,774,721
Impairment provision for receivables												(958,868)
Impairment provision for inventories												(171,161)
Other current assets												1,561,137
Cash and cash equivalents												501,688
Non-current assets and disposal groups classified as held for sale												2,983,817
Total assets												**87,590,519**
Segment liabilities	**15,271,462**	**5,407,111**	**17,723,192**	**360,020**	**5,024,936**	**4,324,628**	**2,246,320**	**1,683,119**	**-**	**13,388,495**	**(26,597,535)**	**38,831,748**
Reconciliation												
Deferred income tax liabilities												2,111,993
Site restoration provision												1,104,158
Other non-current liabilities												7,175,884
Unallocated other current payables												1,537,215
Liabilities of disposal groups classified as held for sale												4,809,706
Total liabilities												**55,570,704**

The Group's investments in KPI and KLPE in the aggregate amount of Tenge 6,623,284 thousand and Kazgeocosmos of Tenge 205,887 thousand were included in segment assets of 'Petrochemicals' segment and 'All other segments', respectively.

6 Segment Information (continued)

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In thousands of Kazakhstani Tenge	**Head office**	**Manga-nese**	**TMP**	**TarEP**	**TEMP**	**Zinc**	**Nickel**	**Chrome**	**Petro-chemicals**	**All other segments**	**Intersegment eliminations**	**Total**
Revenue	-	76,508	4,533,377	371,651	-	-	-	-	-	1,156,554	-	6,138,090
Intersegment revenue	-	523,649	-		-	-	-	-	-	71,875	(595,524)	-
Segment revenue	**-**	**600,157**	**4,533,377**	**371,651**	**-**	**-**	-	**-**	**-**	**1,228,429**	**(595,524)**	**6,138,090**
EBITDA	**8,062,050**	**(321,777)**	**(1,271,981)**	**173,467**	**-**	**(216,264)**	**(162,627)**	**(87,286)**	**(414,785)**	**(260,101)**	**295**	**5,500,991**
Government grant income	-	-	72,875	-	-	-	-	-	-	-	-	72,875
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(41,198)	(83,411)	(1,281,215)	(108,173)	-	-	(4,081	(871)	-	(4,048)	-	(1,522,997)
Losses from write-down of inventories to net realizable value and impairment of inventories	-	(23,149)	(465,600)	-	-	-	-	-	-	-	-	(488,749)
Impairment of investment at cost	(1,039,383)	-	-	-	-	-	-	-	-	-	-	(1,039,383)
Loss for the year from discontinued operations												172,700
Finance income												522,956
Finance costs												(3,660,898)
Loss before income tax												**(442,505)**
Income tax benefit												746,092
Loss for the year from continuing operations												**303,587**

The Group's share in the loss of KPI and KLPE in the aggregate amount of Tenge 414,787 thousand and profit of Kazgeocosmos of Tenge 1,821 thousand was included in EBITDA of 'Petrochemicals' segment and 'All other segments', respectively.

6 Segment Information (continued)

In thousands of Kazakhstani Tenge	Head office	Manga-nese	TMP	TarEP	TEMP	Zinc	Nickel	Chrome	Petro-chemicals	All other segments	Intersegment eliminations	Total
Capital expenditures:												
Additions to property, plant and equipment (excluding capitalised borrowing costs)	105,631	386,150	4,506,526	-	-	1,219	137,819	54,489		3,958	-	**5,195,792**
Additions to exploration and evaluation assets	-	260,952	-	-	-	-	832,532	566,978		-	-	**1,660,462**
Segment assets	**35,362,563**	**2,136,016**	**19,769,415**	**94,332**	**-**	**23,102,698**	**2,145,008**	**1,971,745**	**3,361,28**	**9,565,370**	**(25,696,742)**	**71,811,685**
Reconciliation												
Intangible assets												110,450
Deferred income tax assets												199,241
Unallocated other non-current assets												4,903,267
Impairment provision for receivables												(2,638,543)
Impairment provision for inventories												(154,783)
Other current assets												1,603,184
Cash and cash equivalents												738,608
Non-current assets and disposal groups classified as held for sale												2,983,817
Total assets												**79,228,340**
Segment liabilities	**23,739,607**	**3,564,105**	**17,334,639**	**26,473**	**-**	**442,826**	**1,568,684**	**1,532,694**		**12,104,026**	**(24,070,658)**	**36,242,396**
Reconciliation												
Deferred income tax liabilities												3,775,588
Site restoration provision												744,918
Other non-current liabilities												7,375,098
Unallocated other current payables												800,261
Liabilities of disposal groups classified as held for sale												1,244,967
Total liabilities												**50,183,228**

The Group's investments in KPI and KLPE in the aggregate amount of Tenge 3,361,280thousand and Kazgeocosmos of Tenge 75,199 thousand were included in segment assets of 'Petrochemicals' segment and 'All other segments', respectively.

6 Segment Information (continued)

(d) Geographical information

The total segment revenues from external customers and non-current assets by geographical location are detailed below:

In thousands of Kazakhstani Tenge	Revenue from external customers [1] 2012	Revenue from external customers [1] 2011	Non-current assets[2] 31 December 2012	Non-current assets[2] 31 December 2011
Republic of Kazakhstan	6,178,203	1,202,252	40,151,489	49,876,482
Republic of Turkey	-	-	2,661,830	2,222,730
Russian Federation	8,443,081	4,026,551	-	-
Uzbek Republic	525,655	-	-	-
People's Republic of China	167,447	76,508	-	-
Ukraine	117,068	55,565	-	-
Kyrgyz Republic	37,402	557,939	-	-
Others[3]	227,814	219,275	-	-
Total	**15,696,670**	**6,138,090**	**42,813,319**	**52,099,212**

[1] The geographical location of customers is defined by the country of their domicile.

[2] Non-current assets exclude deferred tax assets and other non-current financial assets.

[3] Othersinclude customers mainly from other CIS countries.

In 2012, revenues in the amount of Tenge 4,983,679 thousand are derived from one major customer, which represents 32% of the total revenues (2011: Tenge 2,910,518 thousand from two major customers which represents 10% of the total revenues). These revenues are attributable to the segment TMP and TEMP.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party is disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as at 31 December 2012 and 31 December 2011 is detailed below.

The following companies were included as other related parties:

- entities under significant influence of the shareholders, holding more than 20% of common shares;
- entities under control or significant influence of close family members of the shareholders, holding more than 20% of common shares.

As at 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Other related parties**
Other non-current assets		-	-	596,304
Less: provision for impairment		-	-	(47,629)
Trade and other receivables	16	234,041	-	9,500,149
Less: provision for impairment		-	-	(477,793)
Borrowings		127,500	-	603,400
Debt component of preference shares		1,962,167	-	1,061,444
Trade and other payables		103,500	-	88,895

As at 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Other related parties**
Other non-current assets		-	-	844,587
Less: provision for impairment		-	-	-
Trade and other receivables		-	-	10,116,705
Less: provision for impairment		-	-	(462,793)
Borrowings		130,000	-	603,400
Debt component of preference shares		2,170,908	-	929,068
Trade and other payables		110,619	-	299,469

Provision for impairment of trade and other receivable at 31 December 2011 and 2012 includes without limitation the provision for impairment of receivables from Dan Construction LLP in the amount of Tenge 286,975 thousand and Shymkent Munai Onimderi JSC in the amount of Tenge 175,818 thousand.

Gross receivables from related parties included to other non-current assets, include the following:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Road Construction Technics LLP	454,712	833,755
Road Construction LLP	93,963	-
Other	47,629	10,832
Total gross non-current receivables from related parties	**596,304**	**844,587**

7 Balances and Transactions with Related Parties (continued)

Non-current receivable from Road Construction Technics LLP (“Road Construction Technics”) and Road Construction LLP (“Road Construction”) includes:

In thousands of Kazakhstani Tenge	2012	2011
Advances for construction of processing plant and works on shift of the road at Western Kamys field	548,675	588,715
Advances for property, plant and equipment	-	245,040
Total non-current receivable from Road Construction and Road Construction Technics	**548,675**	**833,755**

Gross receivables from related parties include the following:

In thousands of Kazakhstani Tenge	2012	2011
SDB Group LLP	3,985,215	-
Flegont LLP	3,410,749	-
Independent Lawyers Group LLP	1,560,849	2,945,313
Dan Construction LLP	286,975	286,975
VTN OIL LLP	234,041	-
Shymkent Munai Onimderi JSC	175,818	175,818
Road Construction Technics LLP	55,000	199,661
Ultimate independent collection agency LLP	-	6,208,244
Bureau on Work with Debtors LLP	-	229,000
Others	25,543	71,694
Total gross trade and other receivables from related parties	**9,734,190**	**10,116,705**

SDB Group LLP

Receivable from SDB Group LLP (“SDB Group”) at 31 December 2012 represents the temporary interest-free financial aid in the amount of Tenge 3,985,215 thousand due on 31 December 2013. As at 31 December 2012 receivable from SDB Group is not overdue. Management believes that the Group will fully collect the amount receivable from SDB Group within agreed terms, and accordingly no provision for impairment was accrued.

Flegont LLP

In 2012, the Group provided temporary interest-free financial aid to Flegont LLP (“Flegont”) in the amount of Tenge 5,038,940 thousand due on 31 December 2013. During 2012 Flegont partially repaid the amount of Tenge 1,628,191 thousand. As at 31 December 2012 receivable from Flegont is not overdue. Management believes that the Group will fully collect the amount receivable from Flegont within agreed terms, and accordingly no provision for impairment was accrued.

Independent Lawyers Group LLP

In 2011, the Group provided temporary interest-free financial aid to Independent Lawyers Group LLP (“ILG”) in the amount of Tenge 2,945,313 thousand due on 31 December 2012. During 2012, receivable in the amount of Tenge 1,384,464 thousand was partially repaid. In December 2012, the agreement on provision of financial aid was extended until 31 December 2013. As at 31 December 2012 the receivable from ILG is not overdue. Management believes that the Group will fully collect the amount receivable from ILG within agreed terms, and accordingly no provision for impairment was accrued.

Ultimate Independent Collection Agency LLP

In 2011, the Group provided temporary unsecured interest-free financial aid to Ultimate Independent Collection Agency LLP (“ICA Ultimate”) in the amount of Tenge 6,208,244 thousand. As of 31 December 2011 no provision for impairment was accrued on this receivable. During 2012 the receivable from ICA Ultimate was settled in full.

7 Balances and Transactions with Related Parties (continued)

The transactions with related parties for the year ended 31 December 2012 were as follows:

In thousands of Kazakhstani Tenge	Note	Shareholders	Entities under common control	Other related parties
Revenue		-	-	1,749
Cost of sales		-	-	27,899
General and administrative expenses		-	-	4,800
Other operating income		-	-	10,147
Other operating expenses		-	-	69,217
Finance costs		220,946	-	119,522
Revenues included in discontinued operations		-	-	42,272
Expenses included in discontinued operations		-	-	272,839
Purchases of property, plant and equipment		-	-	1,199,673
Purchases of inventories		-	-	7,722

Cost of sales, general and administrative expenses, distribution costs and expenses included in discontinued operations represent purchases of goods and services. Finance costs represent dividends on preference shares. Revenues included in discontinued operations represent sales of coal to related parties.

The transactions with related parties for the year ended 31 December 2011 were as follows:

In thousands of Kazakhstani Tenge	Note	Shareholders	Entities under common control	Other related parties
Cost of sales		-	-	434,594
General and administrative expenses		-	-	19,796
Distribution costs		-	-	1,152
Other operating expenses		-	-	85,030
Finance costs		110,619	-	54,222
Revenues included in discontinued operations		-	-	40,054
Expenses included in discontinued operations		-	-	325,038
Purchases of property, plant and equipment		-	-	377,591
Purchases of exploration and evaluation assets		-	-	89,260

Cost of sales, general and administrative expenses, distribution costs and expenses included in discontinued operations represent purchases of goods and services. Other operating expenses in 2011 include losses less gains on disposal of property, plant and equipment of Tenge 28,245 thousand. Finance costs represent dividends on preference shares. Revenues included in discontinued operations represent sales of coal to related parties.

Key management personnel compensation in 2012, including salaries, bonuses and other short-term employee benefits comprised Tenge 19,708 thousand (2011: Tenge 17,420 thousand). Key management personnel as at 31 December 2012 included 4 persons (2011: 4 persons).

As at 31 December 2012 members of key management personnel owned 1.44% of the outstanding common shares of the Company (2011: 1.48%).

As of 31 December 2012, the Group is the guarantor or co-borrower with respect to the liabilities of the related parties in the aggregate amount of Tenge 26,012,440 thousand (Note 37).

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Kazakhstani Tenge	**Mining assets**	**Land**	**Buildings and con-structions**	**Machinery and equipment**	**Vehicles**	**Other**	**Construction in progress**	**Total**
Cost at 1 January 2011	329,170	98,604	24,458,555	4,825,395	372,048	348,536	6,595,412	37,027,720
Accumulated depreciation	(15,490)	-	(40,575)	(91,362)	(37,058)	(138,597)	-	(323,082)
Carrying amount at 1 January 2011	**313,680**	**98,604**	**24,417,980**	**4,734,033**	**334,990**	**209,939**	**6,595,412**	**36,704,638**
Additions	235,662	3,282,855	217,327	123,574	23,092	89,897	2,272,901	6,245,308
Transfers from exploration and evaluation assets	51,034	-	-	-	-	-	-	51,034
Transfers	-	-	2,152,011	3,161,086	5,213	11,671	(5,329,981)	-
Depreciation charge								
- continuing operations	-	-	(787,931)	(752,724)	(22,687)	(31,246)	-	(1,594,588)
- discontinued operations	(19,227)	-	(362,530)	(326,161)	(66,223)	(18,410)	-	(792,551)
Impairment	-	-	-	(190,696)	-	-	-	(190,696)
Disposals	(21,286)	-	(135,148)	(97,261)	(45,199)	(24,705)	(43,501)	(367,100)
Translation to presentation currency	-	(6,679)	1,467	(30,762)	(16,639)	2,093	(1)	(50,521)
Cost at 31 December 2011	594,580	3,374,780	26,688,382	7,881,441	316,407	396,760	3,494,830	42,747,180
Accumulated depreciation and provision for impairment	(34,717)	-	(1,185,206)	(1,260,352)	(103,860)	(157,521)	-	(2,741,656)
Carrying amount at 31 December 2011	**559,863**	**3,374,780**	**25,503,176**	**6,621,089**	**212,547**	**239,239**	**3,494,830**	**40,005,524**
Acquisitions through business combinations	-	12,581	2,029,722	4,429,020	964,503	33,247	-	7,469,073
Additions	55,382	7,857	338,766	1,110,689	273,162	27,514	3,042,124	4,855,494
Transfers	-	-	271,877	427,326	43,685	291	(743,179)	-
Depreciation charge								
- continuing operations	(1,577)	-	(1,009,236)	(1,263,192)	(185,665)	(36,813)	-	(2,496,483)
- discontinued operations	(33,822)	-	(62,634)	(51,177)	(6,614)	(6,454)	-	(160,701)
Impairment	(160,959)	-	(13,637)	(115,921)	(22,169)	(5,955)	(146,920)	(465,561)
Disposals	(176,098)	-	(44,324)	(582,706)	(144,060)	(15,143)	(1,723)	(964,054)
Transfer to disposal group	(242,789)	(498)	(18,937,071)	(1,485,511)	(45,189)	(120,363)	(2,997,388)	(23,828,809)
Translation to presentation currency	-	2,727	(907)	12,318	5,561	625	-	20,324
Cost at 31 December 2012	181,763	3,397,447	9,782,735	11,334,371	1,366,402	259,483	2,794,664	24,432,344
Accumulated depreciation and provision for impairment	(181,763)	-	(1,707,003)	(2,232,436)	(270,641)	(143,295)	(146,920)	(4,682,058)
Carrying amount at 31 December 2012	**-**	**3,397,447**	**8,075,732**	**9,101,935**	**1,095,761**	**116,188**	**2,647,744**	**24,434,807**

Additions in 2012 include an increase in the provisions for site restoration in the amount of Tenge 46,032 thousand recorded to the cost of relevant assets (2011: Tenge 159,570 thousand) (Note 21).

Additions in 2011 include capitalised borrowing costs in the amount of Tenge 170,965 thousand. The average capitalisation rate for 2011 was 12.75%.

Additions in 2011 also include a plot of land received by TMP as a government grant upon fulfilment of the conditions of an investment contract. The land was recognised at a fair value of Tenge 3,279,349 thousand. The fair value was determined by an independent professional appraiser. The grant was recognised as deferred income (Notes 23 and 24) and is recorded to profit and loss on a straight-line basis over the expected economic life of the main buildings and constructions of the plant (15 years).

8 Property, Plant and Equipment (continued)

Impairment of property, plant and equipment is related to the following CGUs (Note 4):

In thousands of Kazakhtsani Tenge	**2012**	**2011**
TMP	-	190,616
Western Kamys	367,408	-
Aitkokshe	89,294	-
Tyuebay-Syurtysu	8,859	-
Total impairment of property, plant and equipment	**465,561**	**190,616**

Construction in progress as at 31 December 2012 represents mainly construction and installation works in progress and equipment under installation acquired in the course of construction of the processing plant of Arman 100. Upon completion, assets will be transferred to 'Building and constructions' and 'Machinery and equipment' categories.

As at 31 December 2012 certain property, plant and equipment with a carrying amount of Tenge 17,201,333 were pledged as collateral for borrowings (2011: Tenge 20,524,874 thousand) (Note 22).

9 Exploration and Evaluation Assets

In thousands of Kazakhstani Tenge	**Note**	**2012**	**2011**
Carrying amount at 1 January		3,781,538	2,540,942
Additions		453,409	200,277
Changes in estimates adjusted against exploration and evaluation assets:			
- obligation on payment of commercial discovery bonus	23	(307,067)	803,405
- obligation for reimbursement of historical costs	23	(9,708)	95,315
- site restoration provision	21	24,207	59
Cost of test production net of proceeds from sales		-	561,406
Impairment	28	(213,430)	-
Transfer to property, plant and equipment		-	(51,034)
Translation to presentation currency		96,765	(368,832)
Total exploration and evaluation assets		**3,825,714**	**3,781,538**

Exploration and evaluation assets including capitalised expenditures comprise:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Subsurface use (exploration and evaluation) rights		
- Gornostayevskoye	1,007,095	1,323,807
- Sivas	314,190	288,924
- Denizli	164,727	151,480
- Tuyebay-Syurtysu	22,362	22,362
Total subsurface use rights	*1,508,374*	*1,786,573*
Geological and geophysical works	844,282	588,870
Exploratory drilling	550,470	469,498
Payroll and related expenses	532,690	402,604
Depreciation	253,825	233,413
Laboratory works	50,546	44,782
Other	298,957	255,798
Impairment reserve	(213,430)	-
Total exploration and evaluation assets	**3,825,714**	**3,781,538**

9 Exploration and Evaluation Assets (continued)

Additions to the exploration and evaluation rights in 2011 include capitalised obligations for payment of commercial discovery bonuses at the Gornostayevskoye and Tuyebay-Syurtysu (Notes 23 and 24), and for reimbursement of historical costs (Note 23).

Changes in estimates in 2012 are mainly due to the following:

- Derecognition of obligations for reimbursement of historical costs in respect of the subsurface use contract for exploration of ferromanganese ores at Tuyebay-Syurtysu field in conjunction with the decision on termination of operations of Saryarka Mining (Note 4).
- Change in estimate of obligation on payment of commercial discovery bonus at Gornostayevskoe field mainly due to revision of internal assessment of nickel-cobalt ore reserves and current market prices for minerals.

Impairment of exploration and evaluation assets related to the following CGUs (Note 4):

In thousands of Kazakhstani Tenge	**2012**	**2011**
Western Kamys	63,141	-
Tyuebay-Syurtysu	150,289	-
Total impairment of exploration and evaluation assets	**213,430**	**-**

Presented below is information on sales of test production:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Production costs	-	757,726
Distribution costs	-	32,573
Proceeds from sales of testing products	-	(228,893)
Cost of test production net of proceeds from sales	**-**	**561,406**

10 Investment Property

In thousands of Kazakhstani Tenge	**Note**	**2012**	**2011**
Carrying amount at 1 January		-	-
Acquisitions through business combinations	5	2,832,370	-
Additions		21,002	-
Carrying amount at 31 December		**2,853,372**	**-**

Investment property includes industrial warehouse complexes in Astana, Karaganda and Temirtau cities acquired by the Group as part of acquisition of TEMP (Note 5). Fair value of investment property at the acquisition date was determined using the income approach (direct capitalisation method) and market approach (based on observable market prices for similar assets).

As at 31 December 2012 certain items of investment property with carrying value of Tenge 2,123,676 thousand were pledged as collateral for certain borrowings (Note 22).

During 2012, the Group received income from operating lease of industrial warehouse complexes of Tenge 41,254 thousand (2011: nil).

11 Intangible Assets

In thousands of Kazakhstani Tenge	**Goodwill**	**Subsurface use rights**	**Other**	**Total**
Cost at 1 January 2011	-	107,602	32,279	139,881
Accumulated amortisation and provision for impairment	-	-	(19,324)	(19,324)
Carrying amount at 1 January 2011	**-**	**107,602**	**12,955**	**120,557**
Additions	-	11,877	402	12,279
Amortisation	-	(10,474)	(4,494)	(14,968)
Disposals	-	-	(7,418)	(7,418)
Cost at 31 December 2011	-	119,479	25,171	144,650
Accumulated amortisation and provision for impairment	-	(10,474)	(23,726)	(34,200)
Carrying amount at 31 December 2011	**-**	**109,005**	**1,445**	**110,450**
Acquisitions through business combinations	6,542	2,150,986	-	2,157,528
Additions	-	-	46,737	46,737
Amortisation	-	(156,539)	(3,515)	(160,054)
Disposals	-	-	(130)	(130)
Impairment	(6,542)	(84,033)	-	(90,575)
Transfer to disposal group	-	-	(347)	(347)
Cost at 31 December 2012	-	2,270,465	70,942	2,341,407
Accumulated amortisation and provision for impairment	-	(251,046)	(26,752)	(277,798)
Carrying amount at 31 December 2012	**-**	**2,019,419**	**44,190**	**2,063,609**

Goodwill relates to acquisition of Axem Investment (Note 5). At 31 December 2012 management concluded that goodwill is impaired and charged its full amount to profit and loss within general and administrative expenses (Note 29).

Subsurface use rights acquired through business combinations in 2012 represent the rights for extraction of manganese ore at Bogach field (Note 5).

Impairment of subsurface use rights recognised in 2012 represents write-down of the full amount of the subsurface use right for production of manganese ore at Western Kamys field as a result of impairment test (Note 4).

12 Investments in Associates and Joint Ventures

The table below summarises movements in the carrying amount of the Group's investments in associates and joint ventures:

	Associates		Joint venture	Total
In thousands of Kazakhstani Tenge	**KPI**	**Kazgeokosmos**	**KLPE**	
Carrying amount at 1 January 2011	3,775,986	73,459	-	3,849,445
Acquisition of share during the year	-	-	160	160
Share in (loss) / profit for the year	(414,785)	1,821	(2)	(412,966)
Disposals	-	-	(79)	(79)
Other	-	(81)	-	(81)
Carrying amount at 31 December 2011	**3,361,201**	**75,199**	**79**	**3,436,479**
Acquisition of share during the year	-	101,766	-	101,766
Investments made during the year	-	-	3,700,040	3,700,040
Share in (loss) / profit for the year	(382,229)	28,922	(52,807)	(406,114)
Disposals	(3,000)	-	-	(3,000)
Carrying amount at 31 December 2012	**2,975,972**	**205,887**	**3,647,312**	**6,829,171**

Development of the integrated petrochemical complex

KPI

KPI was established on 27 March 2008 for realisation of the investment project on "Construction of the first integrated gas chemical complex in Atyrau region" (under government decree dated 29 January 2004). The construction of petrochemical complex is carried out on the basis of the special economic zone "National industrial petrochemical technology park in Atyrau region". The relevant decree was signed by the President in December 2007. The purpose of the project is the use of available gas volume from Tengiz field as a feedstock for the production of value-added petrochemical products. It comprises two phases: production of polypropylene complex of 500,000 tons per annum (phase 1) and polyethylene complex of 800,000 tons per annum (phase 2). Realisation of the first phase is carried out by KPI and of the second phase by KLPE as described further in the note. The construction is expected to be completed and production to commence in 2015.

In March 2008, KPI and Tengizchevroil LLP ("TCO") signed a contract for gas supply from the gas processing plant of TCO. In December 2009, Development Bank of Kazakhstan and EximBank of China signed a memorandum of understanding with respect to the financing of the first phase of the project. In March 2010, KPI and Sinopec Engineering signed a turnkey agreement on the construction of the first phase. In June 2010, KPI and Vinmar International Ltd signed an off-take agreement on purchase of future production from KPI.

In 2010, KPI commenced works on construction of infrastructure facilities including roads and transmission facilities.

KPI was originally established by the Group as a 100% subsidiary. Subsequently, in 2008 the Group sold its 51% interest in KPI to Kazmunaigas Exploration and Production JSC ("KMG EP") and 24% interest to LyondellBasell Kazakhstan Holdings B.V. On 11 May 2010, LyondellBasell signed an exit agreement on withdrawal of participating interest in KPI, and made a transfer of its 24% share to the Group for the total amount of Tenge 733,850 thousand.

In addition, during 2010 KPI increased its charter capital, and the Group paid for its share of this increase Tenge 2,954,302 thousand in cash.

KPI entered into a number of credit facility agreements with Development Bank of Kazakhstan, National Welfare Fund Samruk-Kazyna JSC and Development Bank of Kazakhstan to finance current infrastructure works. Total carrying amount of the borrowings as of 31 December 2012 comprises Tenge 13,646,424 thousand, including short term portion of Tenge 2,200,216 thousand and long term portion of Tenge 11,446,207 thousand due from 2024 to 2030. The interest rates vary from 2% to 10.8% per annum.

The facility of Development Bank of Kazakhstan is secured by interests of owners in the charter capital of KPI.

During 2012 Tenge 25,325,316 thousand was contributed to the charter capital of KPI, out of which the Group's share of Tenge 12,409,505 thousand was not paid. The Group's interest in the charter capital of the associate remained at 49%. The Group plans to pay its share of the contribution to the charter capital in full by year-end 2013.

12 Investments in Associates and Joint Ventures (continued)

KLPE

In 2011, the Group established Ammonia P&D Company (later renamed as KLPE) (Note 1) for realisation of the second phase of the integrated gas chemical complex in Atyrau region (see section 'KPI' above). KLPE was incorporated in the special economic zone in Atyrau region providing exemption from customs duties and other taxes.

In accordance with the joint venture agreement dated 25 August 2011 as amended by the addendum dated 5 December 2011 KPI undertook to reassign the dry gas agreement signed with TCO and to transfer the feasibility study and other historical costs to KLPE.

KLPE is a joint venture between the Group (25%), United Chemical Company LLP ("UCC"), a subsidiary of National Welfare Fund Samruk-Kazyna JSC (25%) and LG Chem (50%) pursuant to the joint venture agreement dated 6 March 2012 (superseding the joint venture agreement dated 25 August 2011 as amended by the amendment agreement dated 5 December 2011).

KLPE was initially established by the Group. In accordance with the joint venture agreement, in December 2011, the Group sold 50% in KLPE to LG Chem for US Dollar 50 million effectively representing payment for the right of participation by LG Chem in the second phase of the project. Payment is scheduled in 4 instalments: US Dollar 1 million not later than 31 December 2011, US Dollar 24 million not later than 31 December 2012, US Dollar 15 million not later than 30 June 2013 and US Dollar 10 million not later than 30 June 2014. The Group recognised the amount receivable from LG Chem within other operating income (Note 27). In March 2012, in accordance with the joint venture agreement, another 25% in KLPE was disposed to UCC.

During 2012,the charter capital of KLPE was increased to Tenge 25,242,944 thousand of which Tenge 20,008,442 thousand was fully paid as at 31 December 2012. In 2012, the Group made a contribution to the charter capital of KLPE for the amount of Tenge 3,700,040 thousand using cash received from LG Chem.

Kazgeocosmos

The Group takes part in joint investment project "Aerospace Monitoring of Natural and Industrial Facilities". Originally, the participants of this project were: the Group (25.5%), Investment Fund of Kazakhstan JSC ("IFK") (49%) and KGC LLP (25.5%).

In accordance with the agreement on joint investment project dated 30 June 2006, starting from 2010 IFK gradually ceases its participation in accordance with the schedule of withdrawal from the project commencing 2010. Accordingly, on 6 November 2010 the Group acquired an additional 6.6% of the total number of outstanding shares in Kazgeocosmos from IFK for Tenge 100,004 thousand, and, as a result, at 31 December 2010 the Group's interest increased to 32.1%.

In accordance with the share purchase agreement dated 18 October 2010, the Group jointly with the participant KGC LLP has the obligation to acquire the remaining 42.4% interest held by IFK for the total amount of Tenge 748,465 thousand during the period of 2011-2013. In 2011, the Group did not acquire any interests from IFK. In 2012, the Group acquired 6.13% interest in Kazgeocosmos from IFK for Tenge 101,766 thousand.

Presented below is the summary financial information on associates as at 31 December 2012 and 2011 and for the years then ended:

In thousands of Kazakhstani Tenge	**Total assets**	**Total liabilities**	**Revenue**	**(Loss) / profit for the year**
2012				
KPI	47,812,969	17,853,912	-	(780,061)
Kazgeocosmos	669,580	271,699	506,893	75,673
KLPE	20,035,513	238,331	-	(211,228)
2011				
KPI	34,943,975	19,316,627	-	(846,500)
Kazgeocosmos	501,215	179,034	335,221	5,667
KLPE	158	-	-	(2)

13 Investments at Cost

The table below summarises information on changes in value of investments at cost:

In thousands of Kazakhstani Tenge	Note	2012	2011
Carrying amount at 1 January		-	1,039,383
Acquisitions through business combinations	5	482,000	-
Disposal		(482,000)	-
Impairment	4	-	(1,039,383)
Carrying amount at 31 December		**-**	**-**

Investments at cost and impairment in 2011 relate to 51% interests in Taonan, Baicheng and Ulanhot and Jinsheng SAT (Note 4).

14 Other Non-Current Assets

In thousands of Kazakhstani Tenge	Note	2012	2011
Non-current portion of receivable from LG Chem	27	1,268,039	3,015,164
Restricted cash		44,857	2,602,666
Non-current receivables from related parties		16,250	-
Non-current receivables from employees		240	342,598
Funds transferred to investment portfolio management		-	15,667
Other non-current receivables		364,305	381,256
Less: provision for impairment		(380,555)	(379,374)
Total non-current financial assets		*1,313,136*	*5,977,977*
Prepayments for property, plant and equipment		1,186,301	2,460,478
Non-current recoverable VAT		1,095,735	1,287,619
Prepayment for share in CAML		490,000	-
Prepayment for shares of TEMP		50,000	814,981
Prepayments for exploration and evaluation assets		35,825	19,809
Other		92,799	182,334
Less: provision for impairment		(13,985)	-
Total other non-current assets		**4,249,811**	**10,743,198**

Prepayment for share in CAML

In January 2012, the Group participated in the tender for acquisition of the following assets from SEC Saryarka:

- 40% interest in subsurface use rights under the contract #2447 dated 20 August 2007 for exploration and extraction of copper at man-made mineral formations (dumps) of Kounrad mine in Karaganda oblast ("Kounrad subsurface use contract").
- 40% interest in the charter capital of Copper Company Kounrad LLP ("CC Kounrad").
- 40% interest in the joint operations agreement on the project "Exploration and extraction of copper at man-made mineral formations (dumps) of Kounrad mine in Karaganda oblast" dated 16 August 2012 ("JOA Kounrad").

Central Asia Metals Plc. ("CAML") through its subsidiaries holds 60% interest in each of these assets. On12 January 2012, the Group entered into preliminary agreement with CAML, pursuant to which in case of winning in the tender the Group is obliged to acquire and transfer to CAML 40% interest in each of the above mentioned assets in exchange of 8,616,593 issued common shares of CAML, which represents 10% of total issued common shares of CAML as at 10 January 2012.

In accordance with the terms of preliminary agreement CAML will issue and transfer to the Group the defined number of shares upon completion the following: (i) the subsidiary of CAML Sary Kazyna LLP becomes the only subsurface user under the Kounrad subsurface use contract and (ii) the Group transfers 40% interest in CC Kounrad to CAML.

14 Other Non-Current Assets (continued)

The Group was announced as a winner of the tender and on 25 January 2012 entered into the sale and purchase agreement with SEC Saryarka on acquisition of the 40% interest in the Kounrad subsurface use contract, the 40% interest in the charter capital of CC Kounrad and 40% interest in JOA Kounrad for Tenge 880,000 thousand.

In 2012, the Group received the government's waiver to exercise its pre-emptive right for acquisition of these assets and approvals of other government authorities. On 29 December 2012,the 40% interest in CC Kounrad was transferred to the Group, however, as at 31 December 2012 the transaction on transfer of 40% interest in the Kounrad subsurface use contract and 40% interest in JOA Kounrad was not completed.

As of 31 December 2012, the Group paid the portion of total consideration under the sale and purchase agreement of SEC Saryarka of Tenge 490,000 thousand. In these consolidated financial statements 40% ownership in equity of CC Kounrad is not classified as investment in associates. Management of the Group concluded that this amount represents prepayments for group of assets which subsequently would be exchanged for 10% ownership in CAML.

Non-current financial assets

Non-current portion of receivable from LG Chem relates to proceeds from sale by the Group of the right of participation in KLPE in 2011 which are due after 31 December 2013 (Notes 12 and 27).

Included in restricted cash are special bank deposits opened in accordance with subsurface use contracts. Interest rates on these deposits vary from 1% to 4% per annum. Restricted cash at 31 December 2011 also included collateralised deposit of Tenge 2,600,000 thousand placed in Eximbank Kazakhstan JSC ("Eximbank Kazakhstan") for 36 months at 15% per annum, which was fully repaid during 2012 (Note 22).

Fair value of the long-term financial assets approximates their carrying amounts.

Non-current financial assets of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	**2012**	**2011**
US Dollar	1,268,039	3,015,164
Tenge	45,097	2,962,813
Total non-current financial assets	**1,313,136**	**5,977,977**

Presented below is the movement in the provision for impairment of non-current financial receivables:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Balance at 1 January	379,374	90,750
Charge for the year	1,181	332,926
Reversal of reserve for the year	-	(44,302)
Balance at 31 December	**380,555**	**379,374**

Non-current VAT recoverable

Non-current VAT recoverable represents input VAT accrued as a result of purchases of goods and services on the territory of the Republic of Kazakhstan.

Prepayment for shares of TEMP

Prepayments for shares of TEMP at 31 December 2011 represent consideration paid for the controlling share in TEMP acquired by the Group in 2012 (Note 5).

On 25 May 2012, the Group entered into the agreement with SEC Saryarka for acquisition of the remaining 24.55% of common shares of TEMP for Tenge 352,900 thousand. At 31 December 2012, the Group did not receive approvals of the government authorities for transfer of this share, which are considered by management as the substantial conditions for completion of the transaction rather than a perfunctory requirement. Accordingly, in these consolidated financial statements at 31 December 2012 the Group did not recognise the corresponding increase in share in the capital of TEMP. At 31 December 2012, the Group paid the portion of the total amount under the agreement with SEC Saryarka of Tenge 50,000 thousand.

15 Inventories

In thousands of Kazakhstani Tenge	2012	2011
Raw materials	1,073,344	609,287
Finished goods	808,756	1,022,924
Work in progress	230,999	58,336
Construction materials	11,189	148,459
Other	171,185	67,486
Less: provision for impairment	(171,161)	(154,783)
Total inventories	**2,124,312**	**1,751,709**

Movement in provisions for impairment of inventories is presented below

In thousands of Kazakhstani Tenge	Note	2012	2011
Balance as at 1 January		154,783	14,677
Accrual for the year:			
- continuing operations	26	18,118	140,106
- discontinued operations		40,856	-
Recovery of provision during the year		(1,740)	-
Foreign exchange difference		447	-
Transfer to disposal groups		(41,303)	-
Balance as at 31 December		**171,161**	**154,783**

16 Trade and Other Receivables

In thousands of Kazakhstani Tenge	Note	2012	2011
Temporary financial aid given to related parties	7	9,734,190	9,912,611
Current portion of receivable from LG Chem	27	2,151,768	3,561,600
Trade receivables		476,447	2,159,874
Other financial receivables		452,056	3,142,675
Less: provision for impairment		(556,305)	(2,232,257)
Total financial receivables		*12,258,156*	*16,544,503*
Advances to suppliers		327,417	321,237
Other receivables		26,771	19,581
Less: provision for impairment		(8,004)	(26,912)
Total trade and other receivables		**12,604,340**	**16,858,409**

At 31 December 2011 other financial receivables include financial aid provided to third parties including receivable from Vintegra LLP which is not a related party to the Group in the amount of Tenge 1,634,193 thousand. Receivable from Vintegra LLP as of 31 December 2011 was fully impaired. In 2012,this receivable was fully repaid, and accordingly the provision for impairment was recovered. Financial trade and other receivables of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2012	2011
Tenge	9,935,159	12,646,102
US Dollar	2,167,002	3,723,999
Russian Ruble	155,342	-
Other	653	174,402
Total financial trade and other receivables	**12,258,156**	**16,544,503**

16 Trade and Other Receivables (continued)

Presented below is the movement in the provision for impairment of financial receivables:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Balance at 1 January	2,232,257	3,340,220
Charge for the year:		
- continuing operations	56,249	225,309
- discontinued operations	106,582	6,554
Reversal of provision for the year:		
- continuing operations	(1,712,203)	(1,333,935)
- discontinued operations	(1,080)	(5,891)
Transfer to disposal groups	(125,500)	-
Balance at 31 December	**556,305**	**2,232,257**

Analysis of financial assets by credit quality is shown below:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Current and not impaired		
Kazakhstani customers	9,884,645	9,937,042
Foreign customers	2,332,709	5,569,665
Total current and not impaired	*12,217,354*	*15,506,707*
Past due but not impaired		
- from 30 to 90 days	3,396	241,134
- from 90 to 180 days	-	224,931
- from 180 to 360 days	16,173	196,430
- over 360 days	21,233	375,301
Total past due but not impaired	*40,802*	*1,037,796*
Individually impaired (gross)	556,305	*2,232,257*
Less: provision for impairment	(556,305)	(2,232,257)
Total trade and other receivables	**12,258,156**	**16,544,503**

Current and not impaired trade and other financial receivables represent existing customers and related parties with no defaults in the past. All past due but not impaired receivables relate to customers which are expected to repay in 2013.

Most of the impaired receivables represent amounts due from debtors which experience unexpected economic difficulties.

17 Other Current Assets

In thousands of Kazakhstani Tenge	2012	2011
Term deposits	-	16,769
Total other financial current assets	*-*	*16,769*
Recoverable VAT and prepaid taxes	1,532,791	1,328,858
Deferred stripping costs	-	236,707
Other	28,365	20,850
Less: provision for impairment	(19)	-
Total other current assets	**1,561,137**	**1,603,184**

18 Cash and Cash Equivalents

In thousands of Kazakhstani Tenge		2012
Term deposits – Tenge	351,099	1,011
Current bank accounts – Tenge	39,109	411,451
Current bank accounts – foreign currencies	81,307	225,926
Cash on hand	30,173	100,220
Total cash and cash equivalents	**501,688**	**738,608**

Cash at bank accounts is neither past due nor impaired. The table below represents the credit quality of cash at bank accounts:

		2012		2011	
In thousands of Kazakhstani Tenge	Rating (Moody's)	Current accounts	Term deposits	Current accounts	Term deposits
Alliance Bank	B3	17,942	342,564	129,134	1,011
Nurbank	Ba3	-	6,592	118,205	-
İş Bankası	Bb	3,432	-	96,492	-
Sberbank of Russia	Ba2	5,466	-	81,262	-
Halyk Bank	Ba2	810	-	31,847	-
ATF Bank	Ba2	2,118	-	21,838	-
Eurasian Bank	B1	2,062	-	14,325	-
J&T Bank CJSC	None	63,786	-	-	-
Others	None	24,800	1,943	144,274	-
Total		**120,416**	**351,099**	**637,377**	**1,011**

Term deposits have contractual maturity of less than three months and are repayable on demand. Effective interest rates of term deposit vary from 6.0% to 6.2% per annum.

19 Non-Current Assets and Disposal Groups Classified as Held for Sale

Disposal groups classified as held for sale

Shalkiya Zinc Ltd

In June 2012, management of the Group made a decision to sell Shalkiya Zinc Ltd. Currently the Group is in the process of negotiations with the potential buyer of this subsidiary. For the purpose of sale the Group re-registered Shalkiya Zinc Ltd from limited liability partnership into joint-stock company in May 2013 and plans lising of shares of this subsidiary on KASE. It is expected that sale of Shalkiya Zinc Ltd will be completed the end of 2013. Accordingly, at 31 December 2012 all assets and liabilities of Shalkiya Zinc Ltd were included in disposal group classified as held for sale.

19 Non-Current Assets and Disposal Groups Classified as Held for Sale (continued)

The Group determined that fair value of the disposal group less cost to sell is higher than its carrying value (Note 4). Accordingly, in these consolidated financial statements at 31 December 2012 assets of the Shalkiya Zinc Ltd disposal group are stated at their carrying value.

SAT Komir

On 21 December 2012, the Group entered into the agreement with individual, citizen of Republic of Kazakhstan, on sale sell of 100% shares of SAT Komir. Total consideration for 100% shares of SAT Komir as stipulated in the share purchase agreement comprises of cash in the amount of Tenge 752,450 thousand and obligation of the buyer to assume the Group's debt payable to BTA Bank with the nominal value of Tenge 3,371,112 thousand (Note 22).

Shares of SAT Komir are pledged as collateral for BTA Bank loans(Note 22). As at 31 December 2012 the Group did not obtain approvals to transfer the shares of SAT Komir from government authorities and BTA Bank, which represent the substantial conditions to complete the transaction. Management believes that the Group will obtain the required approvals and complete sale of SAT Komir in 2013. Accordingly, at 31 December 2012 all assets and liabilities of SAT Komir, and the Group's debt payable to BTA Bank were included in disposal group classified as held for sale.The Group concluded that the fair value of SAT Komir determined as the consideration for 100% shares as stipulated in the share purchase agreement, less cost to sell exceeds the carrying values of the assets of SAT Komir. Accordingly in these consolidated financial statements assets of the SAT Komir disposal group at 31 December 2012 are stated at their carrying value.

Non-current assets held for sale

In 2012, management of the Group made a decision to sell the office building of the Company in Almaty city and currently is engaged in locating the buyer. Expected sale price which approximates the current fair value of the building exceeds its carrying value. Accordingly, in these consolidated financial statements this asset at 31 December 2012 is stated at its carrying value.

Presented below are the non-current assets and assets and liabilities of the disposal groups classified as held for sale and liabilities directly related to those assets as of December 31 2012:

In thousands of Kazakhstani Tenge	**Shalkiya Zinc NV**	**SAT Komir**	**Office building**	**Total**
Property, plant and equipment	20,891,296	2,176,344	761,169	23,828,809
Intangible assets	-	347	-	347
Other non-current assets	910,470	4,311	-	914,781
Inventories	97,772	135,565	-	233,337
Trade receivables	26,535	147,299	-	173,834
Other current assets	-	493,408	-	493,408
Cash and cash equivalents	3,618	26,543	-	30,161
Total non-current assets and assets of disposal groups classified as held for sale	*21,929,691*	*2,983,817*	*761,169*	*25,674,677*
Sire restoration provision	228,522	115,338	-	343,860
Loans	-	4,368,807	-	4,368,807
Deferred income tax liability	3,248,343	-	-	3,248,343
Other non-current liabilities	259,122	37,856	-	296,978
Trade payables	588,641	287,705	-	876,346
Total liabilities of disposal groups classified as held for sale and liabilities directly associated with disposal groups	*4,324,628*	*4,809,706*	-	*9,134,334*

20 Share Capital

As at 31 December the shareholders (owners of common shares) of the Company were as follows:

	2012	2011
Mr. Rakishev Kenges Khamituly	49.05%	51.59%
SFC KOR Invest LLP	23.49%	-
SPF UlarUmit JSC	7.91%	8.16%
OSPF Otan JSC	6.27%	6.47%
VTN OIL LLP	3.69%	-
SPF Astana JSC	2.83%	2.92%
MAC ALIANS LLP	-	22.48%
SPF Industrial Kazakhstan JSC	-	2.07%
SPF Atameken JSC	-	4.06%
Individuals (including management of the Group)	6.76%	2.25%
Total	**100.00%**	**100.00%**

As at 31 December the owners of preference shares of the Company were as follows:

	2012	2011
SPF Republic JSC	53.19%	67.11%
Almex Plus	28.77%	32.89%
Government Saving Pension Fund JSC	14.38%	-
TsesnaBank JSC	3.66%	-
Total	**100.00%**	**100.00%**

In 2012,Mr. Kenges Rakishev acquired a non-controlling interest in SPF Republic JSC

	2012		2011	
	Number of shares	**Value, thousands of Tenge**	**Number of shares**	**Value, thousands of Tenge**
Common shares	1,246,437,867	19,381,199	1,200,000,000	16,084,109
Preference shares	389,192,270	12,072,538	329,681,653	10,215,905
Share capital, including debt component of preference shares	**1,635,630,137**	**31,453,737**	**1,529,681,653**	**26,300,014**
Less: debt component of preference shares		(3,689,195)		(3,099,976)
Total share capital		**27,764,542**		**23,200,038**

As of December 31 2012, total number of authorised common shares is 3,000,000,000 shares (2011: 3,000,000,000 shares). Total number of issued common shares is 1,246,437,867 shares (2011: 1,200,000,000 shares). All issued common shares are fully paid. Each common share carries one voting right.

As of December 31 2012 the total number of authorised preference shares is 750,000,000 shares (2011: 750,000,000 shares). The total number of issued preference shares is 389,192,270 shares (2011: 329,681,653 shares). All issued preference shares are fully paid.

Both common and preference shares do not have a declared nominal value.

Preference shares rank ahead of the common shares in the event of the Company's liquidation. Preference shares give its holders the right to participate in general shareholders' meetings without voting rights except for instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter restricting rights of preference shareholders are proposed.

20 Share Capital (continued)

Dividends on preference shares are set at the higher of Tenge 1 per share. Dividends om preference shares shall not be declared on the amount lower than the amount declared by common shares holders. If dividends on preference shares are not paid in full within three months from the date of expiry of the period set for payment of such dividends, preference shares holders get voting rights until the dividends are actually paid.

Preference shares are compound financial instruments that contain both a liability and an equity component. The Group assessed the fair value of the debt component of the instrument by applying the relevant effective interest rate of 11.04% to the amount of mandatory annual dividends using a net present value formula on perpetuity. The amortised cost of the debt component of the preference shares is included in other non-current liabilities (Note 23).

In 2012, the Company placed 46,437,867 common shares for the amount of Tenge 3,297,090 thousand and 59,510,617 preference shares for the amount of Tenge 1,856,633 thousand (2011: 26,396,706 common shares for the amount of Tenge 1,874,166 thousand and 223,014,986 preference shares for the amount of Tenge 7,015,905 thousand).

As of December 31 2012 treasury shares purchased from the shareholders amounted to 9,911,315 common shares (2011: 1,814,305 common shares). These common shares carry voting rights in the same proportion as other ordinary shares. In 2012, the Company acquired 8,097,110 treasury common shares for Tenge 456,306 thousand (2011: 1,447,575 treasury common shares for Tenge 102,688 thousand).

On 8 November 2010, new KASE listing requirements came into effect requiring the Group to disclose the following information: total assets less total intangible assets, total liabilities and non-voting preference shares (included in equity) divided by the number of common shares outstanding at the end of the year. At 31 December 2012, this indicator calculated by the management of the Group on the basis of data from the consolidated financial statements comprised Tenge 17.44 (2011: Tenge 18.21). The Group is also required to disclose dividends payable to holders of non-voting preference shares, value of non-voting preference shares (included in equity) and debt component of non-voting preference shares divided by number of issued preference shares. At 31 December 2012, this indicator amounted to Tenge 31.52 (2011: Tenge 31.99).

During 2012 and 2011, the Group neither declared nor paid dividends on common shares.

Change in share in subsidiaries

In 2012, the Group acquired 4,206,664 common shares of Shalkiya Zinc NV from its minority shareholders for Tenge 91,055 thousand. Accordingly, the Group's share in the total amount of voting shares of Shalkiya Zinc NV increased from 84.28% to 98.13%. The Group recognised gain on transaction with the non-controlling interest in the amount of Tenge 2,792,249 thousand, calculated as the difference between consideration paid and carrying value of acquired non-controlling interest, directly in equity.

Also in 2012 the Group acquired 1,742,835 common shares of SAT&Co Holding from its minority shareholders for Turkish Lira 1,742,835 thousand (Tenge 143,261 thousand). Accordingly, the Group's share in the total amount of voting shares of SAT&Co Holding increased from 90% to 97.73%. The Group recognised loss on transaction with non-controlling interest in the amount of Tenge 95,325 thousand, calculated as the difference between consideration paid and carrying value of the acquired non-controlling interest, directly in equity.

21 Site Restoration Provision

The Group has a legal obligation to restore a landfill site and to decommission mining property after expected closure of contractual territories.

21 Site Restoration Provision (continued)

Movements in the site restoration provision are presented below:

In thousands of Kazakhstani Tenge	Note	2012	2011
Carrying amount at 1 January		744,918	545,478
Increase of provision through business combinations	5	556,750	-
Changes in estimates recorded to:			
- property, plant and equipment	8	46,032	159,570
- exploration and evaluation assets	9	24,207	59
- profit and loss		33,215	-
Unwinding of the present value discount			
- continuing operations	33	42,132	16,127
- discontinued operations		21,700	23,684
Transfer to disposal groups	19	(343,860)	-
Carrying amount at 31 December		**1,125,094**	**744,918**
Non-current portion		1,104,158	744,918
Current portion	24	20,936	-

Current portion represents the site restoration provisions on Aitkokshe field and Tyuebay-Syurtysu area which were classified as current due to the Group's decision of the to cease the exploration activities at these fields (Note 1).

The amount of site restoration provision was calculated using the prices effective at the reporting date for expenditures to be incurred and then inflated using the forecast inflation rate effective for the period until the settlement of obligations. Uncertainties in estimation of such expenditures include potential changes in requirements of environmental legislation, volumes and alternative methods of restoration activities, discount and inflation rates.

Principal assumptions applied in estimation of site restoration provision are presented below:

	2012	2011
Discount rate	4.63%-7.50%	3.5%-9.9%
Inflation rate	5.00%-5.60%	4.5%-8.4%

Carrying amount of site restoration provision by fields is presented below:

In thousands of Kazakhstani Tenge	Expected closure date	2012	2011
South-Topar field	2016	472,453	-
Western Kamys	2020	347,570	205,588
Bogach	2024	109,132	-
Waste polygons (TMP)	2015	77,299	88,985
Gurlevik	2020	52,696	32,888
Yesymzhal	2025	28,496	-
Gornostayevskoye	2026	16,512	13,490
Tuyebay-Syurtysu	2013	10,997	5,571
Aitkokshe	2013	9,939	9,343
Verkhnesokurskoe	2026	-	273,598
Shalkiya	2046	-	115,455
Total		**1,125,094**	**744,918**

At 31 December 2012 sire restoration provisions of Verkhnesokurskoe and Shalkiya fields were included in the liabilities of disposal groups classified as held for sale (Note 19).

22 Borrowings

In thousands of Kazakhstani Tenge	2012	2011
Non-current portion		
Bonds issued	12,146,758	10,526,641
Sberbank of Russia	8,005,701	6,809,807
BTA Bank	-	2,774,482
Eurasian Bank	-	84,971
Other borrowings	14,522	11,018
Total borrowings – non-current portion	**20,166,981**	**20,206,919**
Current portion		
Sberbank of Russia	5,134,269	4,994,372
Alliance Bank	3,032,135	-
Bonds issued	800,943	1,422,126
Almex Plus	603,400	545,268
Nurbank	402,161	-
RBK Bank	252,051	-
Eurasian Bank	85,679	129,235
Eximbank Kazakhstan	-	2,683,417
Ridani International Ltd	-	1,602,390
Neobrand Sales L.P.	-	1,484,000
Tsesnabank	-	911,200
VTB Bank	-	460,416
Other borrowings	176,885	273,344
Total borrowings – short-term portion	**10,487,523**	**14,505,768**
Total borrowings	**30,654,504**	**34,712,687**

Bonds issued

On 3 January 2008, the Group issued bonds in the amount of Tenge 15,000,000 thousand (“2008 Bonds”). The term of the Bonds 2008 is7 years from the date of issue. Coupon rate on Bonds 2008 is floating and is determined as an increase/decfease of consumer price index published by the Statistics Agency of the Republic of Kazakhstan for 12 months preceding the month of the corresponding coupon period plus fixed margin of 2%. During 2012, the Group placed 2008 Bonds in the amount of Tenge 1,049,833 thousand and repaid the bonds in the amount of Tenge 1,559,363 thousand (partially using proceeds from placement of 2012 Bonds).

In 2012 the Group announced the first bond program for the total amount of Tenge 30,000,000 thousand. On 3 August 2012, the coupon bonds of the first issue within this program in the amount of Tenge 6,000,000 thousand (“2012 Bonds”) were listed on KASE. Rating agency Expert RA Kazakhstan assigned rating “B+” to the 2012 Bonds.

2012 Bonds are not secured and have a term of 7 years from the date of issue. The coupon rate on 2012 Bonds is fixed at 12% in the first year. Starting from the second year bonds bear floating coupon rate which determined every 6 months as an increase/decfease of consumer price index published by the Statistics Agency of the Republic of Kazakhstan for 6 months preceding the month of the corresponding coupon period) plus fixed margin of 2%, but not higher than 14% per annum and not lower than 7% per annum of the nominal amount of the bonds. The coupon on 2012 Bonds of 2000 is paid on a semi-annual basis. During 2012, the Group placed 2012 Bonds for the total amount of Tenge 1,299,997 thousand. Proceeds were fully used to repay 2008 Bonds.

Sberbank of Russia

On 3 May 2011, TMP and CAICC entered into the credit facility agreements with Sberbank of Russia in the total amount of US Dollar 89,964 thousand (equivalent of Tenge 13,190,522 thousand) for the purpose of refinancing borrowings from Development Bank of Kazakhstan, financing of completion of TMP modernisation and replenishment of working capital, including the revolving credit facility in the amount of US Dollar 30,418 thousand (equivalent of Tenge 4,459,887 thousand) available until 3 May 2013.

Short term loans under the revolving credit facility are repaid at maturity; interest of 9.5% per annum is payable on a monthly basis. Effective interest rate for this credit line is 9.89% per annum.

22 Borrowings (continued)

Originally non-current loans drawn under the non-revolving credit facilities were repayable on a monthly basis from the second year of provision of the loans until 3 May 2018. In 2012, the Group signed the number of additional agreements pursuant to which commencement of repayment of the principal amount was extended until June 2013. Interest of 10% per annum is payable on a monthly basis. Effective interest rates on these credit facilities vary from 10.45% to 11.16% per annum.

The carrying amount of loans under these agreements at 31 December 2012 is Tenge 13,139,970 thousand (2011: 11,804,179 thousand) including accrued interest of Tenge 20,733 thousand. These agreements are secured by property, plant and equipment with the carrying amount of Tenge 14,145,753 thousand.

On 15 November 2011, the Group entered into the agreement with DAMU and Sberbank of Russia pursuant to which DAMU subsidises interest of 7% on borrowings related to financing of TMP modernisation until December 2014. The Group recognised the subsidised interest as decrease in finance costs (Note 33).

BTA Bank

The amount of borrowings from BTA Bank represents liability of Shalkiya Zinc Ltd acquired by the Group in December 2010. In 2011, upon completion of acquisition of Shalkiya Zinc NV the Group restructured BTA Bank borrowings. On 20 July 2011, the Group entered into the agreement with BTA Bank, pursuant to which:

- Interest rates on liabilities of Shalkiya Zinc Ltd. were retrospectively decreased in average to 7.5% per annum, and, accordingly, accrued interest was decreased.
- Terms of repayment of principal amount and accrued interest were extended: repayments will be made on a monthly basis in equal instalments from June 2013 till July 2016.

The Group recognised gain on restructuring of BTA Bank borrowings in the amount of Tenge 1,661,115 thousand, including Tenge 1,122,080 thousand within profit from discontinued operations. Rest amount of Tenge 489,035 thousand recognised within finance income for 2011 (Note 32). In December 2012, the Group entered into the agreement on sale of SAT Komir, pursuant to which the Group's debt to BTA Bank is transferred to the buyer as part of consideration for 100% shares of SAT Komir. Accordingly, at 31 December 2012 the carrying value of BTA Bank loans was classified as liabilities directly associated with SAT Komir disposal group (Note 19). These borrowings are secured by property, plant and equipment of Shalkiya Zinc Ltd. with the carrying amount of Tenge 3,503,260 thousand.

Alliance Bank

On 28 May 2012, the Group entered into a credit facility agreement with Alliance Bank JSC ("Alliance Bank") in the total amount of Tenge 3,000,000 thousand until 28 May 2019 for the purpose of refinancing the borrowings of TEMP from Bank "Astana-Finance JSC and RBK Bank JSC, replenishment of working capital and modernisation of the current production facilities. Interest rates on credit facility vary from 9.3% to 11.8% per annum depending on maturity of each instalment. The credit facility is secured by the property of Akmola branch of TEMP with the carrying amount of Tenge 2,123,676 thousand.

In 2012, the Group did not comply with certain covenants set forth in the credit facility agreement, and as a result at 31 December 2012 Alliance Bank had the option to require immediate redemption of the loan in full. Accordingly, the Group's debt payable to Alliance Bank at 31 December 2012 was classified as current because the Group did not obtain waiver from Alliance Bank of their right to request immediate redemption.

Almex Plus LLP

Amount due to Almex Plus represents an outstanding debt of CAICC on temporary interest-free financial aid provided in 2009 for the purpose of working capital replenishment and accepted by the Group as part of acquisition of CAICC in December 2010 as deferred consideration. Originally the financial aid was payable on a monthly basis starting from April 2011 until March 2012. The borrowing is not secured. The effective interest rate determined at origination of the loan was 13.52% per annum. During 2012 and as of the date of the consolidated financial statements the Group did not settle this liability.

Nurbank

In 2011, the Group entered into a revolving credit facility agreement with NurBank JSC ("Nurbank") in the total amount of Tenge 85,000 thousand available until 20 February 2013. In 2012, the limit of the credit facility was increased to Tenge 400,000 thousand and the maturity was extended until 29 March 2013. Principal amount of short term loans obtained under the credit facility agreement are payable at the maturity of the credit facility; interest rate of 16% per annum is payable on a monthly basis. The effective interest rate is 17.5% per annum. The loan is not secured.

22 Borrowings (continued)

RBK Bank

Borrowings from RBK Bank represent the obligations of TEMP acquired by the Group in March 2012 (Note 5), on loans drawn under the revolving credit facility for working capital replenishment in the total amount of Tenge 250,000 thousand. Short term loans drawn under the revolving credit facility are repayable at maturity of the credit facility; interest of 13.5% per annum is payable on a monthly basis. Effective interest rates for loans drawn under the credit facility vary from 14.4% to 14.6% per annum.

The credit facility is secured by property, plant and equipment and inventories with the carrying amount of Tenge 979,095 thousand.

Eurasian Bank

In July 2008, the Group signed a loan agreement with Eurasian Bank for Tenge 637,280 thousand due on 16 July 2013 to finance purchase of property, plant and equipment. The effective interest rate is 15% per annum. Interest and principal amount are payable on a monthly basis. The loan is secured by purchased office building with the carrying amount of Tenge 761,169 thousand (Note 19).

Eximbank Kazakhstan

In October 2009, the Group signed a loan agreement with Eximbank Kazakhstan for Tenge 2,600,000 thousand due on 13 October 2012. The loan was provided to finance acquisition of shares in Taonan, Baicheng and Ulanhot. The loan carried interest of 15% per annum which was payable on an annual basis. Principal was payable at the maturity date. The borrowing was secured by the restricted cash in the amount of Tenge 2,600,000 thousand (Note 14). In 2012 the loan was fully repaid.

Ridani International Ltd.

On 30 December 2010, the Group entered into the agreement with Ridani International Ltd., pursuant to which on 6 January 2011 Ridani International Ltd. provided a short-term loan in the amount of US Dollar 10,000 thousand due on 28 February 2011 for the purpose of acquisition of TEMP and payment of preference share dividends. Interest rate was 8% per annum payable on a monthly basis. During 2011, the repayment term was extended until 30 June 2012. The loan was not secured. In 2012 the loan was fully repaid.

Neobrand Sales L.P.

On 3 October 2011, the Group entered into the agreement with Neobrand Sales L.P., pursuant to which Neobrand Sales L.P. provided an interest-free short-term loan in the amount of US Dollar 10,000 thousand for 5 months for the purpose of acquisition of TEMP. The loan was not secured. In 2012 the loan was fully repaid.

Tsesnabank

On 25 October 2011, the Group entered into the loan agreement with Tsesnabank JSC (“Tsesnabank”) in the amount of Tenge 1,800,000 thousand till 10 January 2012 for the purpose of replenishment of working capital. Effective interest rate is 17.1% per annum. Interest and principal amount are payable in two instalments: on 1 December 2011 and on 10 January 2012. The loan is secured by personal guarantee and cash of the controlling shareholder placed in Tsesnabank. In 2012 the loan was fully repaid.

VTB Bank

In 2011, the Group entered into a revolving credit facility agreement with SB VTB Bank (Kazakhstan) JSC (“VTB Bank”) in the total amount of Tenge 439,920 thousand until 7 September 2013 for the purpose of replenishment of working capital. Credit facility carried interest of 12% per annum. Interest and principal amount of loans obtained under the credit facility agreement were payable on a monthly basis. Effective interest rate approximated contractual interest rate. The credit facility was secured by assets of SAT Komir including property, plant and equipment and finished goods, and future revenue under the contracts with Apai Pavlodar LLP and Temir-Asia Stroy. In 2012, the loan was fully repaid.

22 Borrowings (continued)

The Group's borrowings mature as follows:

In thousands of Kazakhstani Tenge	2012	2011
Borrowings with maturity of		
- less than 6 months	9,607,488	7,335,976
- from 6 months to 1 year	880,035	7,169,792
- from 1 year to 3 years	15,758,339	4,549,223
- over 3 years	4,408,642	15,657,696
Total borrowings	**30,654,504**	**34,712,687**

Borrowings of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2012	2011
- US Dollar	15,302,066	13,744,503
- Tenge	15,218,679	20,858,199
- Russian Rouble	114,135	96,714
- Turkish Lira	19,624	13,271
Total borrowings	**30,654,504**	**34,712,687**

The carrying amounts and fair values of borrowings are as follows:

	2012		2011	
In thousands of Kazakhstani Tenge	Carrying amount	Fair value	Carrying amount	Fair value
Bonds issued	12,947,701	11,089,984	11,948,767	10,299,518
Sberbank of Russia	13,139,970	13,139,970	11,804,179	11,826,392
Alliance Bank	3,032,135	3,032,135	-	-
Almex Plus	603,400	603,400	545,268	545,268
Nurbank	402,161	402,161	-	-
RBK Bank	252,051	252,051	-	-
Eurasian Bank	85,679	85,679	214,206	214,206
BTA Bank	-	-	2,774,482	2,774,482
Eximbank Kazakhstan	-	-	2,683,417	2,683,417
Ridani International Ltd	-	-	1,602,390	1,602,390
Neobrand Sales L.P.	-	-	1,484,000	1,470,958
Tsesnabank	-	-	911,200	911,200
VTB Bank	-	-	460,416	460,416
Other borrowings	191,407	191,407	284,362	284,362
Total	**30,654,504**	**28,796,787**	**34,712,687**	**33,072,609**

23 Other Non-Current Liabilities

In thousands of Kazakhstani Tenge	Note	2012	2011
Debt component of preference shares	20	3,689,195	3,099,976
Non-current payables		13,100	121,617
Total financial non-current liabilities		*3,702,295*	*3,221,593*
Deferred income on government grants		2,769,228	2,987,851
Obligation on payment of commercial discovery bonus	9	529,519	803,405
Employee benefits obligations		94,099	34,113
Obligation on reimbursement of historical costs	9	80,743	328,136
Total other non-current liabilities		**7,175,884**	**7,375,098**

Deferred income on government grants

In accordance with the investment contract between TMP and the Committee on Investments of the Ministry of Industry and Trade of the Republic of Kazakhstan dated 20 June 2007 the Group undertook to provide investments for modernisation of the metallurgical plant in the total amount of not less than Tenge 3,597,008 thousand. In August 2011, upon fulfilment of the terms of the investment contract TMP received a government grant in the form of the land plot on which the plant is located. The fair value of the land plot of Tenge 3,279,349 thousand was determined by an independent professional appraiser. The Group recognised grant as deferred income in the consolidated statement of financial position which is amortised to the profit and loss on a straight-line basis over the expected useful life of the main buildings and constructions of the plant (15 years) within other operating income (Note 27).

The Group recognised the government grants in deferred income as follows:

In thousands of Kazakhstani Tenge	Note	2012	2011
Deferred income at 1 January		3,206,474	-
New grants received	8	-	3,279,349
Amortisation of deferred income recognised in profit and loss	27	(218,623)	(72,875)
Deferred income at 31 December		**2,987,851**	**3,206,474**
Classified as:			
Non-current		2,769,228	2,987,851
Current	24	218,623	218,623

Obligation on payment of commercial discovery bonus

Obligation on payment of commercial discovery bonus relates to the contract on exploration and evaluation of cobalt-nickel ores at Gornostayevskoye field (Note 9). In 2011, management concluded that there is a high probability of commercial discovery, and, therefore, at 31 December 2011 recognised obligation on payment of commercial discovery bonus in the amount of Tenge 803,405 thousand.

Carrying value of the liability was determined based on the discounted value of estimated future cash flows required for the full settlement of the obligation and the expected term of repayment of the obligation. The nominal value of the obligation at 31 December 2011 estimated by management was Tenge 922,180 thousand. It is expected that approval of the proved reserves by the government authorities and accordingly repayment of the related obligation of payment of commercial discovery bonus will happen no sooner than 2015.

In 2012, management revised estimated amount of the obligation on payment of commercial discovery bonus mainly due to change in internal assessment of the cobalt-nickel ores and current market prices for minerals. The estimated nominal amount of the obligation at 31 December 2012 was Tenge 610,024 thousand.

The movement in the obligation on payment of commercial discovery bonus is presented below:

23 Other Non-Current Liabilities (continued)

In thousands of Kazakhstani Tenge	2012	2011
Carrying value at 1 January	803,405	-
Accrual for the year	-	803,405
Unwinding of present value discount	33,181	-
Change in estimates due to change in discount rate	(36,105)	-
Other changes in estimates	(270,962)	-
Carrying value at 31 December	**529,519**	**803,405**

The present value of the obligation at 31 December 2012 was calculated applying the annual discount rate of 4.83% (2011: 4.13%).

Obligation on reimbursement of historical costs

Obligation for reimbursement of historical costs at 31 December 2011 included the obligations under subsurface use contracts for Gornostayevskoe field in the amount of Tenge 85,015 thousand, Tyuebay-Syurtysu area in the amount of Tenge 12,062 thousand respectively and for Shalkiya field in the amount of Tenge 231,059 thousand.

Carrying value of the obligation was determined based on the discounted value of estimated future cash flows required for the full settlement of the obligation and the forecasted repayment schedule approved by management based on best available estimates of future production patterns that define the expected term of the obligation.

The movement in the obligation on reimbursement of historical costs is presented below:

In thousands of Kazakhstani Tenge		2012	2011
Carrying value at 1 January		328,136	212,256
Accrual / (reversal) for the year		(12,062)	97,077
Payments made during the year		-	(13,277)
Unwinding of present value discount:			
- continuing operations	33	5,373	-
- discontinued operations		28,143	24,632
Change in estimate due to change in discount rate		(5,459)	1,405
Other changes in estimates		(4,249)	6,043
Transfer to disposal group		(259,139)	-
Carrying value at 31 December		**80,743**	**328,136**

The present value of the obligation at 31 December 2012 was calculated applying the annual discount rate of 7.5% (2011: 6.3%).

In conjunction of the Group's decision not to extend the term of the subsurface use contract on Tyuebay-Syurtysu area and to cease operations of Saryarka Mining (Note 1), the Group derecognised obligation on reimbursement of historical costs and wrote-off related exploration and evaluation assets (Note 9).

As at 31 December 2012 the obligation on reimbursement of historical costs under the subsurface use contract for Shalkiya field was included in disposal group classified as held for sale (Note 19).

24 Trade and Other Payables

In thousands of Kazakhstani Tenge	Note	2012	2011
Trade payables		2,228,083	1,979,653
Dividends payable on preference shares		194,596	164,841
Other financial liabilities		579,797	87,596
Total financial payables		*3,002,476*	*2,232,090*
Advances received		850,139	542,586
Unused vacation reserve		342,661	64,075
Payroll and pension contributions payable		324,735	173,760
Provision for uncertain tax positions		303,474	-
Taxes payable		224,889	135,089
Deferred income on government grants	23	218,623	218,623
Site restoration provision	21	20,936	-
Commercial discovery bonus	9	-	10,300
Other		101,898	198,414
Total trade and other payables		**5,389,831**	**3,574,937**

Financial trade and other payables of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	2012	2011
Tenge	2,791,943	1,143,867
Russian Rouble	105,487	145,223
US Dollar	53,741	801,738
Turkish Lira	32,544	96,994
Pound Sterling	12,563	23
Euro	6,198	44,245
Total financial trade and other payables	**3,002,476**	**2,232,090**

25 Revenue

In thousands of Kazakhstani Tenge	2012	2011
Ferroalloys	11,278,690	4,804,065
Calcium carbide	2,508,477	-
Limestone	775,303	-
Scrap metal	732,285	-
Oil and oil products	-	972,096
Other	401,915	361,929
Total revenue	**15,696,670**	**6,138,090**

26 Cost of Sales

In thousands of Kazakhstani Tenge	Note	2012	2011
Materials		6,353,756	2,942,383
Electricity		4,237,274	1,396,366
Depreciation of property, plant and equipment		2,309,208	1,092,118
Payroll and related costs		1,779,192	578,785
Impairment of property, plant and equipment and intangible assets	8, 11	451,416	65,401
Scrap metal		255,502	-
Transportation		50,229	112,326
Rent		43,634	-
Taxes		34,792	-
Stripping costs		21,477	-
Crude oil and oil products		-	612,994
Write-down of inventories to net realisable value		-	348,643
Impairment of inventories	15	18,118	140,106
Other		890,988	63,633
Total cost of sales		**16,445,586**	**7,352,755**

27 Other Operating Income

In thousands of Kazakhstani Tenge	Note	2012	2011
Gain from write-off of liabilities		234,041	38,414
Income from sale of other inventories		229,309	-
Government grant income	23	218,623	72,875
Foreign exchange gain less losses		104,212	26,442
Gain from sale of interest in associates		42,030	-
Gains less losses from disposal of property, plant and equipment		39,612	7,096
Gain from sale of participation right in KLPE	12	-	6,688,505
Gain from sale of Avia Center JET		-	1,480,063
Other		65,139	248,617
Total other operating income		**932,966**	**8,562,012**

In 2011, the Group sold the right of participation in KLPE of 50% interest to LG Chem for US Dollar 50 million (Note 12). The Group recognised a gain on sale at fair value of consideration receivable which was determined based on discounted cash flows using interest rate of 11% per annum.

28 Exploration and Evaluation Expenses

In thousands of Kazakhstani Tenge	Note	2012	2011
Impairment of exploration and evaluation assets	9	213,430	-
Geological and geophysical works		33,427	22,985
Technological research		9,713	3,836
Payroll and related expenses		6,819	7,997
Depreciation of property, pland and equipment		5,941	5,969
Ore processing		-	25,478
Other		4,460	21,705
Total exploration and evaluation expenses		**273,790**	**87,970**

29 General and Administrative Expenses

In thousands of Kazakhstani Tenge	Note	2012	2011
Payroll and related costs		1,348,187	1,017,041
Consulting services		507,197	788,484
VAT write-off		346,695	-
Depreciation of property, plant and equipment and amortisation of intangible assets		236,136	240,183
Impairment of property, plant and equipment	8	98,178	125,295
Taxes and charges		246,252	168,959
Security services		191,454	68,542
Sponsorship and other financial aid		152,357	142,182
Materials		143,806	67,383
Business trip and representative expenses		118,918	234,479
Bank charges		75,146	72,646
Rent		52,355	72,808
Communication services		35,270	52,032
Impairment of goodwill	11	6,542	-
Write-down of inventories to net realisable value		-	1,656
Reversal less accrual of provision for impairment of receivables		(1,622,301)	(823,622)
Other		518,408	225,713
Total general and administrative expenses		**2,454,600**	**2,453,781**

30 Distribution Costs

In thousands of Kazakhstani Tenge	2012	2011
Transportation and logistics services	523,186	353,510
Materials	115,047	41,436
Payroll and related costs	69,428	15,389
Other	65,503	84,694
Total distribution costs	**773,164**	**495,029**

31 Other Operating Expenses

In thousands of Kazakhstani Tenge	2012	2011
Loss less gains on disposal of property, plant and equipment	246,009	76,433
Idle time production costs	150,686	-
Other	333,933	86,348
Total other operating expenses	**730,628**	**162,781**

32 Finance Income

In thousands of Kazakhstani Tenge	Note	2012	2011
Unwinding of present value discount on non-current financial assets		356,176	19,256
Foreign exchange gains less losses on loans and cash and cash equivalents		82,520	-
Interest income on banks deposits		5,311	14,665
Gain from restructuring of borrowings	22	-	489,035
Other		23,483	-
Total finance income		**467,490**	**522,956**

33 Finance Costs

In thousands of Kazakhstani Tenge	Note	2012	2011
Interest expense:			
- on issued bonds		1,413,455	1,509,966
- on bank and other borrowings		2,335,620	1,519,067
Dividends on preference shares		415,415	218,174
Foreign exchange losses less gains on borrowings and cash and cash equivalents		326,379	423,292
Unwinding of present value discount on:			
- site restoration provision	21	42,132	16,127
- obligation on payment of commercial discovery bonus	23	33,181	-
- obligation for reimbursement of historical costs	23	5,373	-
Less: interest on borrowings reimbursed by DAMU	22	(305,500)	(34,428)
Other		132,830	8,700
Total finance costs		**4,398,885**	**3,660,898**

34 Income Tax

Income tax benefit comprises the following:

In thousands of Kazakhstani Tenge	2012	2011
Current income tax	(17,234)	(2,657)
Deferred income tax	1,028,188	748,749
Total income tax benefit	**1,010,954**	**746,092**

Provided below is reconciliation between the expected and the actual income tax benefit:

In thousands of Kazakhstani Tenge	2012	2011
IFRS loss before income tax	**(2,943,879)**	**(442,505)**
Theoretical income tax benefit at statutory tax rate of 20% (2011: 20%)	588,776	88,501
Tax effect of items which are not deductible or assessable for taxation purposes:		
Business combinations gain	1,088,352	-
Reversal / (Impairment) of receivables not related to business activities	337,359	(166,272)
Change in unrecognised deferred income tax assets	(424,757)	(188,241)
Share of losses of associates	(81,223)	(82,593)
Sponsorship	(24,738)	25,183
Impairment of investments at cost	-	(207,877)
Non-taxable gain on disposal of interests in subsidiaries	-	1,440,903
Other non-deductible expenses	(472,815)	(163,512)
Total income tax benefit	**1,010,954**	**746,092**

34 Income Tax (continued)

In thousands of Kazakhstani Tenge	31 December 2011	Business combi-nations	Recorded to profit and loss	Transfer to disposal group	31 December 2012
Tax effect of deductible temporary differences					
Deferred income on government grants	641,295	-	(43,725)	-	597,570
Tax losses of previous years	313,335	9,342	916,986	(3,310)	1,236,353
Inventories	159,994	15,215	(16,254)	(77,395)	81,560
Site restoration provision	98,356	109,991	53,253	(108,332)	153,268
Exploration and evaluation assets	37,597	-	12,628	-	50,225
Other	31,608	11,296	70,262	(43,911)	69,255
Gross deferred income tax assets	**1,282,185**	**145,844**	**993,150**	**(232,948)**	**2,188,231**
Less offsetting with deferred income tax liabilities	(1,082,944)	(145,844)	(324,510)	232,948	(1,320,350)
Recognised deferred income tax assets	**199,241**	**-**	**668,640**	**-**	**867,881**
Tax effect of taxable temporary differences					
Property, plant and equipment	4,789,792	1,139,769	(42,711)	(3,474,494)	2,412,356
Intangible assets	-	429,790	(26,306)		403,484
Investment property	-	553,222	1,338		554,560
Other	68,740	-	-	(6,797)	61,943
Gross deferred income tax liabilities	**4,858,532**	**2,122,781**	**(67,679)**	**(3,481,291)**	**3,432,343**
Less offsetting with deferred income tax assets	(1,082,944)	(145,844)	(324,510)	232,948	(1,320,350)
Recognised deferred income tax liabilities	**3,775,588**	**1,976,937**	**(392,189)**	**(3,248,343)**	**2,111,993**
Continuing operations			1,028,188		
Discontinued operations			32,641		

In thousands of Kazakhstani Tenge	1 January 2011	Recorded to profit and loss	31 December 2011
Tax effect of deductible temporary differences			
Deferred income on government grants	-	641,295	641,295
Tax losses of previous years	303,611	9,724	313,335
Inventories	126,610	33,384	159,994
Site restoration provision	88,143	10,213	98,356
Exploration and evaluation assets	30,193	7,404	37,597
Other	40,303	(8,695)	31,608
Gross deferred income tax assets	**588,860**	**693,325**	**1,282,185**
Less offsetting with deferred income tax liabilities	(469,443)	(613,501)	(1,082,944)
Recognised deferred income tax assets	**119,417**	**79,824**	**199,241**
Tax effect of taxable temporary differences			
Property, plant and equipment	4,987,315	(197,523)	4,789,792
Other	37,508	31,232	68,740
Gross deferred income tax liabilities	**5,024,823**	**(166,291)**	**4,858,532**
Less offsetting with deferred income tax assets	(469,443)	(613,501)	(1,082,944)
Recognised deferred income tax liabilities	**4,555,380**	**(779,792)**	**3,775,588**
Continuing operations		748,749	
Discontinued operations		110,867	

34 Income Tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of different companies of the Group cannot be offset with the current tax liabilities and tax benefits of other companies of the Group, and accordingly, taxes can be assessed even in case of consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only if they relate to the same taxable company.

35 Discontinued Operations

In thousands of Kazakhstani Tenge	**2012**	**2011**
SAT Komir	(114,809)	158,302
Shalkiya Zinc Ltd	(932,651)	14,398
Total (loss) / profit for the year from discontinued operations	**(1,047,460)**	**172,700**

As of December 31 2012 all assets and liabilities of SAT Komir and Shalkiya Zinc Ltd were included in the disposal groups classified as held for sale (Note 19). Since operations of SAT Komir and Shalkiya Zinc Ltd on production of coal and lead-zinc ores represented separate major types of the Group's operations, these disposal groups are presented as discontinued operations in the consolidated financial statements. The consolidated financial statements for the previous year have been restated and presented in accordance with the presentation of the current year.

The analysis of the results of discontinued operations for the year 2012 is presented below:

	2012			**2011**		
In thousands of Kazakhstani Tenge	**SAT Komir**	**Shalkiya Zinc Ltd**	**Total**	**SAT Komir**	**Shalkiya Zinc Ltd**	**Total**
Revenue	2,390,782	-	2,390,782	2,013,401	-	2,013,401
Expenses	(2,507,196)	(959,043)	(3,466,239)	(1,855,100)	(93,976)	(1,949,076)
Profit / (loss) before tax of discontinued operations	(116,414)	(959,043)	(1,075,457)	158,301	(93,976)	64,325
Income tax benefit	1,605	26,392	27,997	1	108,374	108,375
Profit / (loss) for the year from discontinued operations	**(114,809)**	**(932,651)**	**(1,047,460)**	**158,302**	**14,398**	**172,700**

36 (Loss) / Earnings per Share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of common shares in issue during the year, excluding treasury shares.

The Company has no potentially diluted common shares; therefore, the diluted earnings per share are equal to the basic earnings per share.

(Loss) / earnings per share from continuing operations are calculated as follows:

	2012	**2011**
(Loss) / profit for the year from continuing operations attributable to the holders of common shares, in thousands of Tenge	(1,462,555)	272,482
(Loss) / profit for the year from continuing operations attributable to the holders of preference shares, in thousands of Tenge	(470,370)	31,105
(Loss) / profit for the year from continuing operations, in thousands of Tenge	(1,932,925)	303,587
Weighted average number of outstanding common shares (in thousands)	1,199,844	1,037,787
Weighted average number of outstanding preference shares (in thousands)	385,880	118,468

36 (Loss) / Earnings per Share (continued)

Basic and diluted (loss) / earnings per common share from continuing operations (Tenge per share)	(1.22)	0.26
Basic and diluted (loss) / earnings per preference share from continuing operations (Tenge per share)	(1.22)	0.26

(Loss) / earnings per share from discontinued operations are calculated as follows:

	2012	2011
(Loss) / profit for the year from discontinued operations attributable to the holders of common shares, in thousands of Tenge	(792,565)	155,005
(Loss) / profit for the year from discontinued operations attributable to the holders of preference shares, in thousands of Tenge	(254,895)	17,695
(Loss) / profit for the year from discontinued operations, in thousands of Tenge	(1,047,460)	172,700
Weighted average number of outstanding common shares (in thousands)	1,199,844	1,037,787
Weighted average number of outstanding preference shares (in thousands)	385,880	118,468
Basic and diluted (loss) / earnings per common share from discontinued operations (Tenge per share)	(0.66)	0.15
Basic and diluted (loss) / earnings per preference share from discontinued operations (Tenge per share)	(0.66)	0.15

37 Contingencies, Commitments and Operating Risks

Political and economic situation in the Republic of Kazakhstan

In general, the economy of the Republic of Kazakhstan continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

The mining sector in Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for economic stability in Kazakhstan are largely dependent on the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The recent global financial crisis has had a severe effect on the economy of the Republic of Kazakhstan and the financial situation in the financial, banking and corporate sectors significantly deteriorated since mid-2008. In 2011-2012 the Kazakhstani economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of Tenge against major foreign currencies, and increased liquidity levels in the banking sector.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for impairment of trade and other receivables were determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Management performed impairment test of certain non-financial assets and investments at cost (Note 4).

Management is unable to predict neither extent, nor duration of changes in the Kazakhstani economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

37 Contingencies, Commitments and Operating Risks (continued)

Tax legislation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In the opinion of the Group's management, no material losses will be incurred in respect of existing and potential tax claims in excess of provision that have been made in these consolidated financial statements.

Transfer pricing

Kazakhstan

According to the Kazakhstani transfer pricing law, the cross-border transactions and certain internal transactions related to cross-border transactions are subject to the state control over transfer pricing. This law prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in controllable transactions, including existence of the documentation supporting the prices and price differentials applied. Additionally, price differentials cannot be applied in the cross-border transactions with companies registered in offshore countries. In case of deviation of transaction price from market price, the tax authorities have the right to adjust taxable base and to impose additional taxes, fines and interest penalties.

The transfer pricing law in some of its sections does not contain detailed and clear policies on its use in practice (for example, form and content of documentation, which supports discounts), and, therefore, definition of tax liabilities of the Group within transfer pricing policies require interpretation of transfer pricing law.

Russian Federation

The transfer pricing legislation of the Russian Federation that is applicable to transactions on or prior to 31 December 2012 provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions.

Significant difficulties exist in interpreting and applying Russian transfer pricing legislation in practice. It is possible, with the evolution of the interpretation of the transfer pricing rules, that transfer prices applied by the Group could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and the overall operations of the Group.

The Group is engaged in transactions which are subject to state control in terms of transfer pricing. Regardless of the inherent risks that the Kazakhstani or Russian tax authorities may question transfer pricing policy of the Group, the management of the Group believes that it will be able to sustain its position in case if transfer pricing policy of the Group will be challenged by the tax authorities. Therefore, no additional tax obligations were recorded by the Group in these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters

The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that

37 Contingencies, Commitments and Operating Risks (continued)

there are no significant liabilities for environmental damage in addition to the amounts already accrued and recorded in these consolidated financial statements that could adversely affect operational results or financial position of the Group.

Site restoration provision

The Group's subsidiaries have a legal obligation to decommission its mining assets and other production assets, and to restore a landfill site after its closure.

Kazakhstani legal environment and practice is continuously evolving, which may result in varying interpretations and changes in the existing legislation, as well as introduction of the new laws and regulations. Management believes that sufficient provisions have been recorded in these consolidated financial statements with respect to asset retirement obligations arising from requirements of existing regulations and the Group's operations. However, the changes in the legislation or its interpretation, as well as changes in management's judgment may require the Group to revise its estimates and recognise additional asset retirement obligations.

Obligations under subsurface use contracts

In accordance with the terms of subsurface use contracts (Note 1), the Group has the following obligations:

- to fulfil minimum work program, which specifies volume of capital expenditures, geological, production and processing expenditures, and their estimated cost that should be completed during the term of subsurface use contracts;
- to finance certain social infrastructure projects;
- to finance professional training of Kazakhstani personnel;
- to pay commercial discovery bonus in the case of commercial discovery;
- to reimburse the historical costs incurred by the state related to geological information;
- to comply with the minimal local content in purchased goods and services.

In accordance with the Law of the Republic of Kazakhstan on Mineral Resources and Subsurface Use, the Ministry of Industry and New Technologies has a right to terminate subsurface use contracts unilaterally in case of material breach of obligations stipulated by subsurface use contracts and work program.

The Group is subject to periodic reviews by governmental authorities with respect to its compliance with the requirements of respective subsurface use contracts. Management cooperates with governmental authorities to agree on remediation actions necessary to resolve any findings resulting from these reviews. Failure to comply with the contractual terms could result in fines, penalties, restriction, suspension or termination of the contract. The Group's management believes that any matters of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position.

Minimum work program

The table below shows minimum volume of capital and geological expenditures which needs to be fulfilled during the effective term of subsurface use contracts as well as unfulfilled portion of minimum work program as at 31 December 2012:

Contractual area	Work program term	Minimum volume for the entire period	Unfulfilled portion of minimum work program as at 31 December 2012	Amount to be fulfilled in 2013
Western Kamys	2001 - 2013	547,966	-	-
Gornostayevskoye	2011 - 2012	582,440	-	-
Tuyebay-Syurtysu	2008 - 2012	235,830	-	-
Aitkokshe	2008 - 2013	967,622	537,273	430,349
Total		**2,333,858**	**537,273**	**430,349**

37 Contingencies, Commitments and Operating Risks (continued)

The table below shows minimum volume of production and processing expenditures which needs to be fulfilled during the effective period of subsurface use contracts as well as unfulfilled portion of minimum work program as at 31 December 2012:

Contractual area	Work program term	Minimum volume for the entire period	Unfulfilled portion of minimum work program as at 31 December 2012	Amount to be fulfilled in 2013
Shalkiya	2002 – 2046	11,975,429	11,875,106	2,269,238
Kymuskuduk Verkhnesokurskoe	2004 – 2026	11,287,408	7,867,383	605,183
Western Kamys	2001 – 2013	3,617,024	127,159	127,159
Bogach	2005 – 2020	3,435,576	1,389,672	201,343
South-Topar	2001 – 2016	2,798,639	616,225	154,056
Yesymzhal	2003 – 2025	532,278	385,141	91,740
Total		**33,646,354**	**22,260,686**	**3,448,719**

The table below shows the minimum amount of production which is required to be fulfilled by the terms of the Turkish production/exploration licences per year:

Contractual territory	Period	Minimum work program for each year (in tonnes)
Sivas	2012 – 2013	600
Denizli	2012 – 2013	1,450
Total		**2,050**

As at 31 December 2012 the fulfilment of the minimum amount of production was as follows:

- *Shalkiya.* As of December 31 2012 the Group did not fulfil the minimum work program, and accordingly did not comply with the terms of the subsurface use contract for Shalkiya field.
- *Kumyskuduk Verkhnesokurskoe.* Management believes that the Group fully complies with minimum work program requirements.
- *Western Kamys.* In accordance with the terms of the subsurface use contract for Western Kamys field the Group is required to sell the minimum amount of manganese concentrate on an annual basis. As at 31 December 2012 the Group did not comply with this requirement. Management believes that the unfulfilled amount of minimum work programs at 31 December 2012 will be carried forward to the future periods. Management believes that the Group has sufficient resources to fulfil its contractual obligations in the future.
- *South-Topar.* Management believes that the Group fully complies with minimum work program requirements.
- *Bogach.* Management believes that the Group fully complies with minimum work program requirements.
- *Yesymzhal.* Management believes that the Group fully complies with minimum work program requirements.
- *Gornostaevskoe.* The exploration period at Gornostayevskoye field expired on 26 February 2012 (Note 1). During 2012 the Group submitted an application to MINT for extension of the exploration stage until February 2015. At the date of these consolidated financial statements MINT did not approve the corresponding addendum to the subsurface use contract. Accordingly, the minimum work program for 2012 was not developed and approved by the government authorities. The Group submitted the report on the fulfilment of the license/contract conditions (LCC) with actual results for the period from 1 January until 26 February 2012 to the respective government body. Upon receipt of approval of extension of the subsurface use contract the Group plans to provide a report on fulfilment of LCC for 2012 in accordance with the new work program.
- *Tyuebay-Syurtysu*. Management believes that the Group fully complied with minimum work program for the subsurface use contract the exploration period of which expired on 8 May 2012.
- *Aitkokshe*. At 31 December 2012 the Group did not comply with minimum work program under this subsurface use contract.

37 Contingencies, Commitments and Operating Risks (continued)

Social projects obligation

In accordance with the terms of subsurface use contracts, the Group is obliged to finance certain social infrastructure projects on an annual basis. Fulfilment of such obligations may be in the form of cash payments. Obligation represents fixed amount or 1% of the budgeted operational expenditures for the year. As of December 31 2012 the Group did not fulfil its social projects obligations under the subsurface use contracts on the Western Kamys and Aitkokshe fields. As of December 31 2012, the Group also technically did not comply with the terms of the subsurface use contract for Gornostayevskoe field as the obligations were fulfilled after the expiry of the exploration period on 26 February 2012. Management plans to provide a report on fulfilment of social projects obligations for 2012 upon receipt of addendum on extension of the exploration stage which is expected in 2013.

Training of Kazakhstani personnel

In accordance with the terms of subsurface use contracts, the Group is obliged to finance professional training of Kazakhstani personnel at the amount not less than 0.1%-1.0% of total operational expenditures for the year stated in annual minimum work program. As at 31 December 2012 the Group did not fulfil its obligations on training of Kazakhstani personnel under the subsurface use contracts for Western Kamys and Aitkokshe fields.

Minimum percentage of Kazakhstani content in purchases of goods and services

In accordance with the terms of subsurface use contracts the Group is obliged to purchase certain percentage of total purchases of goods and services from Kazakhstani suppliers. As of December 31 2012 the Group did not comply with this requirement under the subsurface use contracts for Shalkiya, Kumyskuduk Verkhnesokurskoe, Western Kamys, Tuebay-Syurtysu and Aitkokshe fields.

Impact of the non-compliance with the terms of subsurface use contracts

Management of the Group undertook the following actions to eliminate the non-compliance with subsurface use contracts:

- *Shalkiya*. In 2012, the Group prepared the updated project on development of Shalkiya field, according to which it is expected that construction of the new processing plant would commence in 2014 and be completed by the end of 2016. These plans significantly depend on availability of sufficient financing for capital expenditures (Note 4). The Group expects to obtain the work program for subsurface use contract on Shalkiya updated in accordance with this project and approved by MINT in 2013, which will cancel the previous non-compliance with subsurface use contract terms.
- *Western Kamys.* In 2012,the Group prepared the updated project for development of Western Kamys, according to which the completion of the construction of the processing plant is expected in 2013. These plans significantly depend on the Group's ability to raise sufficient financing (Note 4). Based on this project management of the Group expects to obtain approval of the addendum to the subsurface use contract for Western Kamys field with the updated work program in 2013 (Note 1). This will cancel the previous non-compliance with subsurface use contract terms.
- *Gornostayevskoe*. In 2012, the Group prepared a project with updated estimate of the silicate cobalt-nickel ores at Gornostayevskoe field, based on which management of the Group expects to receive the approval of the addendum to the subsurface use contract (Note 1) during 2013 with a new work program. This will cancel the previous non-compliance with subsurface use contract terms.
- Tyuebay-Syurtysu. Management of the Group believes that non-fulfilment of the requirements of the subsurface use contract for Tyuebay-Syurtysu field will be cancelled in connection with the expiry of the exploration period under this subsurface use contract and terminations of the operations of Saryarka Mining (Note 1), and the Group will not incur additional obligations under the terms of this subsurface use contract.
- *Aitkokshe.* Management of the Group believes that non-fulfilment of the terms of the subsurface use contract for Aitkokshe field will be cancelled in connection with the expiry of the subsurface use contract and termination of the operations of KARUAN (Note 1), and the Group will not incur additional obligations under the terms of this subsurface use contract.

On 17 October 2012 MINT revoked the subsurface use contract for Talap field. The Group was required either to make an application for extension of the exploration and development period, or to provide additional agreement to the subsurface use contract for Talap field for transfer to production stage. The Group did not accomplish any of these activities due to circumstances beyond the Group's control. Management plans to appeal to the court in 2013 regarding the revocation of the subsurface use contract for Talap field.

37 Contingencies, Commitments and Operating Risks (continued)

Capital expenditure commitments

Construction of the road

In 2011, Arman 100 entered into the agreement for the construction of a bypass road for a section of the public road that intersects the Western Kamys mine for the total amount of Tenge 1,100,000 thousand. The current route of the road prevents the exploitation of this area of manganese ore. The Group received permission from the Ministry of Transport and Communication of the Republic of Kazakhstan to move this section of the road. In 2012, the adhesion contract was signed pursuant to which the works on the construction of the bypass road will be fulfilled by Road Construction, the Group's related party. Furthermore, in 2012,the Group entered into the agreement with Road Construction for construction of the road for total amount of Tenge 285,963 thousand.

As of December 31 2012 the amount of Tenge 448,774 thousand was utilised by the contractor; the amount of advances given at this date for future services was Tenge 93,963 thousand. The construction of the bypass road is expected to be completed in the end of 2013.

Other capital expenditure commitments

In 2011 Arman 100 commenced construction of the processing plant that is planned to be completed in the end of 2013. The Group entered into the agreement for plant construction with Road Construction Technics, related party of the Group, for the total amount of Tenge 1,185,570 thousand. In 2012 the Group signed addendum to the existing contract on construction of the plant on increase of the contractual amount up to Tenge 2,200,000 thousand.

As of 31 December 2012 the amount of Tenge 709,189 thousand was utilised by the contractor; the amount of advances given at this date for future works was Tenge 454,712 thousand.

Management believes that the Group will have sufficient resources to fulfil its capital expenditure commitments.

Guarantees

Guarantees represent irrevocable obligations on the part of the Group to make payments in the event of non-fulfilment of obligatons by the other party. The Group is the guarantor or co-borrower with respect to the following obligations of the related parties:

In thousands of Kazakhstani Tenge	**2012**	**2011**
Alsai LLC LLP	12,132,601	8,016,758
Mr. Kenges Rakishev	9,398,591	-
Shymkent Munai Onimderi JSC	2,804,536	1,848,997
Flegont LLP	1,000,000	-
LuxuryRestinc. LLP	404,408	-
TOT Mani LLC	272,304	-

Alsai LLC LLP

In 2007, the Group issued a guarantee for a short-term loan received by Alsai LLC LLP (Alsai) from Kazkommertsbank JSC in the amount of US Dollar 50,000 thousand. The loan was due on 1 August 2012 and during 2012 Alsai and Kazkommertsbank JSC did not sign an agreement on extension of the loan. Accordingly, at 31 December 2012, the amount payable by Alsai to Kazkommertsbank JSC includes late payment fines and penalties in the amount of Tenge 3,816,153 thousand.

Shymkent Munai Onimderi JSC

In 2005, the Group entered into the agreement with Kazkommertsbank JSC as the co-borrower for the credit facility limited to US Dollar 13,500 thousand obtained by Shymkent Munai Onimderi JSC (ShMO). Loans drawn under the credit facility were due on 1 August 2012 and during 2012 ShMO and Kazkommertsbank JSC did not sign an agreement on extension of the repayment date. Accordingly, at 31 December 2012, the amount payable by ShMO to Kazkommertsbank JSC includes late payment fines and penalties in the amount of Tenge 882,304 thousand.

At the date of these consolidated financial statements the Group, Alsai and ShMO reached agreement with Kazkommertsbank JSC on termination of Group's obligations.

37 Contingencies, Commitments and Operating Risks (continued)

Mr. Kenges Rakishev

In 2012, the Group entered into the agreement with Tsesnabank as the co-borrower for the credit facility limited to US Dollar 62,900 thousand obtained by Mr. Kenges Rakishev, the ultimate beneficiary party of the Company (Note 1). As at December 31 2012 the principal amount and accrued interest of borrowing under this credit facility is Tenge 9,398,591 thousand.

In 2013 the additional agreement was signed thereby increasing the limit of credit line to US Dollar 103,000 thousand.

Flegont LLP

In December 2011 ICA Ultimate (Note 7) entered into the agreement for opening credit facility in “Bank “Astana-finance” JSC for amount Tenge 1,000,000 thousand with maturity of 7 January 2013 for the purpose of purchase of shares of Insurance Company Astana-finance JSC (subsequently renamed to “Insurance company “Standard” JSC). On 5 April 2012, the Group became co-borrower under this agreement.

On 23 October 2012, borrowings under this credit facility were transferred by Flegont LLP (“Flegont”) according to agreement of transfer of debt and cession of claim rights.

Luxury Rest inc. LLP

In 2012, the Group issued a guarantee with respect to the loan of the Group’s related party, Luxury Rest inc. LLP (“Luxury Rest inc.”) from Alliance Bank to the total amount of Tenge 404,408 thousand with maturity date on 12 July 2019.

TOT Mani LLC

In 2012, the Group issued a guarantee with respect to the loan of the Group’s related party, TOT Mani LLC (“TOT Mani”) from OJSC Alfa-Bank in the amount of Russian Rouble 54,900 thousand.

The Group concluded that at the date of these consolidated financial statements there were no indications that ultimate beneficiary party of the Company, Flegont, Luxury Rest inc. and TOT Mani would not be able to settle their obligations, which may otherwise require the Group to repay the liabilities of these entities.

Management believes that the fair value of the guarantees as at 31 December 2012 and 2011 is not material for these consolidated financial statements.

38 Financial Instruments by Category

In thousands of Kazakhstani Tenge	Note	2012	2011
Loans and receivables			
Other non-current financial assets	14	1,313,136	5,977,977
Trade and other financial receivables	16	12,258,156	16,544,503
Other current financial assets	17	-	16,769
Cash and cash equivalents	18	501,688	738,608
Total financial assets		**14,072,980**	**23,277,857**
Financial liabilities at amortised cost			
Borrowings	22	30,654,504	34,712,687
Other non-current liabilities	23	3,702,294	3,221,593
Trade and other financial payables	24	3,002,476	2,232,090
Total financial liabilities		**37,359,274**	**40,166,370**

39 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by management under policies set by the Board of Directors of the Company, which provides principles for risk management, covering specific areas, such as credit risk, liquidity risk and market risk.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from issued guarantees, non-current and current financial receivables, other current financial assets, restricted cash and cash and cash equivalents. The carrying amount of non-current and current financial receivables, other current financial assets, restricted cash and cash and cash equivalents represent the maximum amount of credit risk exposures.

With respect to banks and financial institutions, only entities with high ratings are accepted.

The Group does not have the system of assessing the creditworthiness of its customers, policy for assigning internal ratings and setting credit limits for counterparties.

The table below shows credit ratings (if available) as at the end of the relevant reporting period:

In thousands of Kazakhstani Tenge	**Rating (Moody's)**	**2012**	**2011**
Current financial receivables	None	12,258,156	16,544,503
Non-current financial receivables	None	1,268,279	3,359,644
Restricted cash	None	44,857	2,602,666
Term deposits	Ba3	-	16,769
Funds transferred to investment portfolio management	None	-	15,667
Cash and cash equivalents			
Alliance Bank	B3	360,506	130,145
Nurbank	Ba3	6,592	118,205
İş Bankası	Bb	3,432	96,492
Sberbank of Russia	Ba2	5,466	81,262
Halyk Bank	Ba2	810	31,847
ATF Bank	Ba2	2,118	21,838
Eurasian Bank	B1	2,062	14,325
J&T Bank CJSC	None	63,786	-
Other	None	26,743	144,274
Total cash on current accounts and term deposits		471,515	638,388
Total maximum exposure to credit risk		**14,042,807**	**23,177,637**

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty when fulfilling its financial liabilities. The Group manages the liquidity risk using short-term (one month) forecasts of the expected cash flows from operating activities. The Group has developed a range of internal regulations, aimed at establishing control procedures for appropriate placement of temporary excess cash, invoice processing and payments, as well as preparation of operational budgets. The Group's objective is to maintain the balance between the continuous financing and flexibility using the bank term deposits.

39 Financial Risk Management (continued)

The following table summarises the Group's financial liabilities by maturities, indicating the time remaining as at reporting date till the maturity dates stipulated under the terms of contracts.

In thousands of Kazakhstani Tenge	**On demand and less than 1 month**	**1-6 months**	**6-12 months**	**1-3 years**	**Over 3 years**
At 31 December 2012					
Borrowings	3,284,186	9,206,360	2,049,090	18,013,532	5,355,214
Other non-current liabilities	-	-	389,192	1,167,577	4,670,307
Trade and other financial payables	1,963,414	1,039,062	-	-	-
Financial guarantees	26,012,440	-	-	-	-
Total financial liabilities	**31,260,040**	**10,245,422**	**2,438,282**	**19,181,109**	**10,025,521**
At 31 December 2011					
Borrowings	114,316	7,889,598	7,887,781	5,853,455	16,146,747
Other non-current liabilities	-	-	329,682	989,045	4,285,861
Trade and other financial payables	1,515,521	716,569	-	-	-
Financial guarantees	-	9,865,755	-	-	-
Total financial liabilities	**1,629,837**	**18,471,922**	**8,217,463**	**6,842,500**	**20,432,608**

In the table above the amount of issued financial guarantees is related to the early period in which these guarantees may be claimed (Note 37).

Management estimates that financial aid given to related parties can be realised in cash within a month in order to meet unforeseen liquidity requirements.

(c) Market risk

Interest rate risk

Revenues and operating cash flows of the Group are not subject to changes in market interest rates because interest rates on borrowings are fixed. However, the Group is exposed to fair value changes in interest rates.

The Group has no formal agreements for the analysis and reduction of the risks associated with changes in interest rates.

Foreign exchange risk

Foreign exchange risk arises when future foreign currency inflows, or recognised assets and liabilities, are denominated in currencies other than the functional currency of the Group entities.

The Group is exposed to currency risk mainly in respect of borrowings and payables to suppliers and vendors, denominated in US Dollars. Exposure to currency risk in respect of cash and cash equivalents is insignificant, because they are mainly denominated in Tenge (Note 18). Due to the fact that the variety of financial derivative instruments on the Kazakhstani market is limited and these instruments are rather expensive management has chosen not to hedge the Group's foreign exchange risk, as currently benefits from implementing such instruments do not outweigh the costs. Nevertheless, the Group continues monitoring changes of financial derivatives market in order to implement hedging structure in the future or as needed.

39 Financial Risk Management (continued)

The table below shows the total amount of assets and liabilities denominated in a foreign currency that give rise to foreign exchange risk:

In thousands of Kazakhstani Tenge	US Dollar	Euro	Russian Rouble	British Pound	Turkish Lira	Total
As at 31 December 2012						
Assets	3,441,175	8,350	219,177	-	11,099	3,679,801
Liabilities	(15,355,807)	(6,198)	(221,368)	(12,563)	(63,521)	(15,659,457)
Net position	**(11,914,632)**	**2,152**	**(2,191)**	**(12,563)**	**(52,422)**	**(11,979,656)**
As at 31 December 2011						
Assets	6,972,549	42,854	140,085	-	772	7,156,260
Liabilities	(14,546,241)	(44,245)	(241,937)	(23)	(110,265)	(14,942,711)
Net position	**(7,573,692)**	**(1,391)**	**(101,852)**	**(23)**	**(109,493)**	**(7,786,451)**

At 31 December 2012, if Tenge had weakened/strengthen by 10% against the US Dollar with all other variables held constant, the profit for the year would have decreased/increased by Tenge 953,171 thousand (2011: decreased/increased by Tenge 605,895 thousand).

Price risk

The Group is not exposed to price risk of equity securities since it does not have any portfolio of quoted equity securities.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return equity to the shareholders or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the equity as shown in the consolidated statement of financial position plus net debt. In 2012, the Group's strategy was to maintain gearing ratio in the range from 50% to 60%.

In thousands of Kazakhstani Tenge	Note	2012	2011
Total borrowings	22	30,654,504	34,712,687
Less: cash and cash equivalents	18	(501,688)	(738,608)
Net debt		30,152,816	33,974,079
Total equity		32,019,815	29,045,112
Total capital		62,172,631	63,019,191
Gearing ratio		**48%**	**54%**

40 Fair Value of Financial Instruments

Fair value estimate

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The economy of the Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Carrying amounts of trade and other financial receivables and other current financial assets approximate their fair values due to their short term nature. Carrying value of non-current financial assets approximate their fair values as effective interest rates determined at the origination of the financial instruments approximate market interest rates at 31 December 2012 for the similar instruments.

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted using current interest rates for new instruments with similar credit risk and remaining maturity. Due to the short-term nature of trade payables, their carrying amount approximates their fair value. Fair value of borrowings is disclosed in Note 22.

41 Events after the Reporting Period

Share issue and treasury shares

In 2013 the Company purchased treasury shares amounted to 204,781 common shares for the amount of Tenge 14,335 thousand.

Acquisition of share in subsidiaries

In June 2013, the Group completed the acquisition of 24.55% common shares of TEMP (Note 14) and became 100% holder of voting shares.

Borrowings

In April 2013, the Group signed an additional agreement with Sberbank of Russia under which the Group must fulfil the following terms in addition to those agreed in previous borrowing agreement:

- external market price of ferroalloy manganese of TMP must not be less than US Dollar 1,200 per ton;
- production volume of TMP must not be less than 50,000 tons for each four quarters;
- construction of processing plant of Arman 100 (Note 4) must be completed during 18 months from signing date of this agreement.

In case of not-fulfillment of aforementioned terms, Sberbank of Russia shall be entitled to close the accessibility to the credit line.

In May 2013, the Group entered into an agreement with Sberbank of Russia regarding loan restructuring of the Group (Note 4).

In February 2013, the Group paid a part of borrowing from Nurbank (Note 22) in amount of Tenge 75,000 thousand.

In July 2013 the Group's liabilities to Kazkommertsbank under guarantees of Alsai LLC and Shymkent Munai Onimdery JSC were terminated.