National Mining Company Tau-Ken Samruk JSC

Interim condensed consolidated financial statements (unaudited)

For the six months ended 30 June 2015 with report on the review of interim condensed consolidated financial statements

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Report on review of interim condensed consolidated financial statements

To the Shareholder and Management of JSC National Mining Company Tau-Ken Samruk

We have reviewed the accompanying interim condensed consolidated financial statements of JSC National Mining Company Tau-Ken Samruk and it's subsidiaries ("the Group"), comprising the interim consolidated statement of financial position as at 30 June 2015 and the related interim consolidated statements of comprehensive income, cash flows and changes in equity for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of JSC National Mining Company Tau-Ken Samruk are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / Audit partner

Auditor qualification certificate
No. МФ-0000099 dated 27 August 2012

Alexandr Nazarkulov
Acting general director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on 15 July 2005

5 August 2015

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

In thousands of tenge	Notes	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Revenue from sales	4	**23,970,902**	7,728,618
Cost of sales	5	**(24,231,069)**	(7,364,200)
Gross (loss)/profit		**(260,167)**	364,418
General and administrative expenses		**(972,461)**	(682,111)
Transportation and selling expenses		**(125,999)**	–
Operating expenses		**–**	(83,000)
Operating loss		**(1,358,627)**	(400,693)
Finance income	11	**763,685**	243,899
Gain on free-of-charge acquisition of subsidiary		**–**	210,281
Share in loss of joint ventures and associate	9	**(245,868)**	(1,972,784)
Other non-operating income		**326,837**	3,794
Other non-operating expenses		**(185,515)**	(128,091)
Foreign exchange gain		**18,822**	–
Loss before income tax		**(680,666)**	(2,043,594)
Income tax expense		**(2,749)**	–
Net loss for the period		**(683,415)**	(2,043,594)
Net loss attributable to:			
Equity holder of the Parent		**(685,046)**	(2,043,594)
Non-controlling interest		**1,631**	–
		(683,415)	(2,043,594)
Other comprehensive income for the period	9	**4,937,893**	38,827,316
Total comprehensive income for the period, net of tax		**4,254,478**	36,783,722
Total comprehensive income for the period attributable to:			
Shareholder of the Parent		**4,252,847**	36,783,722
Non-controlling interest	12	**1,631**	–
		4,254,478	36,783,722

Managing director on finance — *Ainabekov B.A.*

Chief accountant — *Seitova A.B.*

Explanatory notes on pages 6 to 17 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Notes	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	**11,404,017**	10,131,995
Intangible assets	7	**49,224,733**	41,630,039
Exploration and evaluation assets	8	**3,077,388**	2,367,773
Investments in joint ventures and associate	9	**236,978,821**	234,169,197
Income tax prepaid		**240,564**	136,164
Taxes receivable		**1,546,182**	1,098,001
Other non-current assets		**629,784**	214,139
		303,101,489	289,747,308
Current assets			
Inventory	10	**5,345,843**	9,890,919
Accounts receivable		**516,376**	2,341,626
Advances paid		**310,733**	321,277
Other current assets		**28,091**	54,848
Term deposits		**336,778**	745,336
Cash and cash equivalents	11	**18,093,009**	11,929,578
		24,630,830	25,283,584
Total assets		**327,732,319**	315,030,892
Equity and liabilities			
Equity			
Share capital	12	**232,192,536**	230,386,253
Retained earnings		**35,600,035**	36,307,148
Other components of equity		**43,209,863**	38,271,970
Equity attributable to equity holder of the Parent		**311,002,434**	304,965,371
Non-controlling interest	12	**422,405**	420,774
		311,424,839	305,386,145
Non-current liabilities			
Deferred tax liability		**7,345,446**	7,333,767
Other non-current liabilities		**102,355**	48,250
		7,447,801	7,382,017
Current liabilities			
Accounts payable	13	**8,349,159**	1,948,888
Taxes payable		**91,369**	78,663
Due to employees		**130,188**	181,198
Provisions under subsurface use contracts		**98,373**	36,534
Other current liabilities		**190,590**	17,447
		8,859,679	2,262,730
		16,307,480	9,644,747
Total equity and liabilities		**327,732,319**	315,030,892

Managing director on finance — *Kinabekov B.A.*

Chief accountant — *Seitova A.B.*

Explanatory notes on pages 6 to 17 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

In thousands of tenge	Notes	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Cash flows from operating activities			
Loss before income tax		**(680,666)**	(2,043,594)
Adjustments for:			
Depreciation and amortisation		**127,053**	102,749
Finance income	11	**(763,685)**	(243,899)
Share in loss of joint ventures and associate	9	**245,868**	1,972,784
Reversal of allowance for obsolete and slow-moving inventory	10	**(214,642)**	–
Impairment of VAT receivable		**64,956**	–
(Gain)/loss on disposal of property, plant and equipment		**(74,801)**	56
Gain on disposal of exploration and evaluation assets		**(1,546)**	–
Gain on free-of-charge acquisition of subsidiary		**–**	(210,281)
Other		**(15,052)**	–
		(1,312,515)	(422,185)
Change in inventories		**4,759,590**	(3,121,195)
Change in accounts receivable		**1,825,250**	–
Change in other current assets		**10,355**	21,049
Change in other non-current assets		**(415,645)**	6,933
Change in other taxes		**(385,878)**	(210,555)
Change in advances paid		**10,544**	(120,225)
Change in accounts payable		**(1,066,086)**	454,920
Change in due to employees		**25,881**	(34,936)
Change in other non-current liabilities		**54,105**	–
Change in other current liabilities		**171,850**	96,679
		3,677,451	(3,329,515)
Interest received		**670,218**	234,908
Income tax paid		**(111,744)**	(36,880)
Net cash flows from / (used in) operating activities		**4,235,925**	(3,131,487)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,582,198)**	(207,285)
Proceeds from sale of property, plant and equipment		**310,787**	–
Purchase of intangible assets		**(9,168)**	(1,355)
Proceeds from sale of intangible assets		**14,426**	–
Purchase of exploration and evaluation assets		**(471,517)**	(405,323)
Repayment of account payable for acquisition of subsidiary		**(410,000)**	–
Dividends received from associate	9	**1,882,401**	–
Acquisition of subsidiary, net of cash acquired	3	**1**	(249,818)
Withdrawal of bank deposits		**408,558**	105,500
Net cash flows from / (used in) investing activities		**143,290**	(758,281)

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Notes	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Cash flows from financing activities			
Issue of shares	12	**1,806,283**	8,316,899
Dividends	12	**(22,067)**	–
Net cash flows from financing activities		**1,784,216**	8,316,899
Net increase of cash and cash equivalents		**6,163,431**	4,427,131
Cash and cash equivalents, beginning of the period	11	**11,929,578**	6,588,719
Cash and cash equivalents, end of the period	11	**18,093,009**	11,015,850

Managing director on finance — *Ainabekov B.A.*

Chief accountant — *Seitova A.B.*

Explanatory notes on pages 6 to 17 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

		Attributable to equity holder of the Parent					
In thousands of tenge	Notes	Share capital	Other components of equity	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2014 (audited)		175,239,257	1,141,807	37,795,155	214,176,219	–	214,176,219
Net loss for the period		–	–	(2,043,594)	(2,043,594)	–	(2,043,594)
Other comprehensive income		–	38,827,316	–	38,827,316	–	38,827,316
Total comprehensive income for the period (unaudited)		–	38,827,316	(2,043,594)	36,783,722	–	36,783,722
Issue of shares		8,316,899	–	–	8,316,899	–	8,316,899
Acquisition of subsidiary		–	–	–	–	2,067,625	2,067,625
Dividends		–	–	(250,458)	(250,458)	–	(250,458)
At 30 June 2014 (unaudited)		183,556,156	39,969,123	35,501,103	259,026,382	2,067,625	261,094,007
At 1 January 2015 (audited)		**230,386,253**	**38,271,970**	**36,307,148**	**304,965,371**	**420,774**	**305,386,145**
Net loss for the period		–	–	**(685,046)**	**(685,046)**	**1,631**	**(683,415)**
Other comprehensive income	9	–	**4,937,893**	–	**4,937,893**	–	**4,937,893**
Total comprehensive income for the period (unaudited)		–	**4,937,893**	**(685,046)**	**4,252,847**	**1,631**	**4,254,478**
Issue of shares	12	**1,806,283**	–	–	**1,806,283**	–	**1,806,283**
Dividends	12	–	–	**(22,067)**	**(22,067)**	–	**(22,067)**
At 30 June 2015 (unaudited)		**232,192,536**	**43,209,863**	**35,600,035**	**311,002,434**	**422,405**	**311,424,839**

Managing director on finance — *Ainabekov B.A.*

Chief accountant — *Seitova A.B.*

Explanatory notes on pages 6 to 17 are an integral part of these interim condensed consolidated financial statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

1. GENERAL INFORMATION

National Mining Company Tau-Ken Samruk JSC ("Tau-Ken Samruk" or the "Company) was established in accordance with the Resolution of the Government of the Republic of Kazakhstan No. 10 dated 15 January 2009 and was registered as a joint stock company on 2 February 2009. The Company's office is located at: 8 Dinmukhamed Kunayev str., block "B", Astana, Republic of Kazakhstan.

Sovereign Wealth Fund Samruk-Kazyna JSC ("Samruk-Kazyna") is the sole shareholder of the Company. Ultimate shareholder of Samruk-Kazyna is the Government of the Republic of Kazakhstan.

These interim condensed consolidated financial statements include financial statements of the Company and its subsidiaries (together the "Group").

The Group's main business activities include, but are not limited, to the following:

- Conducting activities in the area of exploration, development, production, processing and sale of solid minerals.
- Reproduction of Kazakhstan mineral resources complex.
- Development of potential of Kazakhstan mining industry by implementing new technologies and enhancing efficiency of state participation in implementation of subsoil use projects.

The accompanying interim condensed consolidated financial statements authorized for issue by the Managing director on finance and the Chief accountant of the Company on 5 August 2015.

2. BASIS OF PREPARATION

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2014.

Exchange rates

The currency exchange rate of KASE as at 30 June 2015 and 31 December 2014 was 186.2 tenge for 1 US dollar and 182.35 tenge for 1 US dollar, respectively. This rate was used for translation of monetary assets and liabilities denominated in US dollars at 30 June 2015.

New standards, interpretations and amendments to the existing standards and interpretations adopted by the Group for the first time

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of new standards and clarifications effective as at 1 January 2015. The Group has not early adopted any other standard, interpretations or amendments that has been issued but is not yet effective.

The nature and effect of these changes are disclosed below. Although the Group has applied these new standards and amendments for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

New standards, clarifications and amendments to the existing standards and clarifications adopted by the Group for the first time (continued)

The nature and the impact of each new standard or amendment is described below:

Annual improvements of IFRS 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy and interim condensed consolidated financial statements of the Group.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not recognize revaluation adjustments during the current interim period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment does not impact the interim condensed consolidated financial statements of the Group as it does not receive any management services from other entities.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applied only to the accounting in the financial statements of the joint arrangement itself.

The Group is not a joint arrangement, and this this amendment is not relevant for the Group.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. Thus, this amendment does not impact the accounting policy and interim condensed consolidated financial statements of the Group.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. BUSINESS COMBINATION

Acquisition of Severnyi Katpar LLP

On 26 June 2015 the Company acquired from three individuals Aubakirova K.Y, Chi A.Y. and Zhumabekova G.E 100% interest in the charter capital of Severnyi Katpar LLP. The main activity of Severnyi Katpar LLP is the exploration of tungsten, in accordance with the Contract for exploration of tungsten on a deposit Severnyi Katpar in Karaganda region, which was signed between the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan and Severnyi Katpar LLP. Transaction cost comprised of 7,733,640 thousand tenge, which was not paid as at 30 June 2015 and was recognized as payable for acquisition of subsidiary in the interim separate statement of financial position. This accounts payable is due in 30 calendar days after the state re-registration of Sevenyi Katpar LLP due to changes of equity holders.

The acquisition of interest in Severnyi Katpar LLP was accounted using the acquisition method. As at 30 June 2015 the Group did not have sufficient time to finalize the assessment of fair value of its share in acquired identifiable assets, liabilities and contingencies. The acquisition was accounted for using the provisional fair values as at the date of acquisition.

The provisional fair value of identifiable assets and liabilities of Severnyi Katpar LLP at the date of acquisition were as follows:

In thousands of tenge	**Provisional fair value as at the date of acquisition**
Property, plant and equipment *(Note 6)*	2,064
Exploration and evaluation assets *(Note 8)*	154,448
Other current assets	89
Cash and cash equivalents	1
	156,602
Deferred tax liability	(11,679)
Current liabilities	(1,293)
	(12,972)
Total identifiable net assets at provisional fair value	**7,733,640**
The excess of purchase price over net asset value (preliminary information*) *(Note 7)*	7,590,010
Cost of the acquisition	**7,733,640**
Net cash acquired with the subsidiary	1
Cash paid as at 30 June 2015	–
Net cash inflows	**1**

* *The net book value of intangible assets at the date of acquisition may be subsequently adjusted, with the corresponding adjustment of goodwill (if any) prior to 26 June 2016 (one year after the transaction).*

The above indicated fair value of acquired intangible assets in the amount of 7,590,010 thousand tenge is provisional until a final valuation of these assets is obtained and mainly comprised of subsurface use right of Severnyi Katpar deposit.

From the date of acquisition of Severnyi Katpar LLP, the contribution of this company into revenue and net loss of the Group amounted to nil. If the acquisition had taken place at the beginning of the year, the Group's revenue would have been nil tenge, and gain for the period would have been 291,694 thousand tenge.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. REVENUE FROM SALES

In thousands of tenge	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Sale of fine gold *(Note 14)*	**21,940,889**	7,728,618
Sale of silica	**2,030,013**	–
	23,970,902	7,728,618

5. COST OF SALES

In thousands of tenge	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Raw materials	**18,194,743**	10,226,770
Salary and related expenses	**302,892**	96,546
Depreciation and amortisation	**72,364**	113,907
Other	**179,633**	50,246
Changes in finished goods and work-in-progress	**5,481,437**	(3,123,269)
	24,231,069	7,364,200

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	Land	Mining assets	Buildings and constructions	Machinery and equipment	Vehicles	Computers	Other	Construction-in-progress	Total
Cost									
At 1 January 2015 (audited)	–	221,908	1,808,753	2,959,335	76,384	66,737	589,770	4,732,875	10,455,762
Additions	–	346,498	–	31,232	39,792	3,718	6,640	1,154,318	1,582,198
Changes in accounting estimates	–	47,510	–	–	–	–	–	–	47,510
Acquisition through business combinations *(Note 3)*	–	–	–	2,064	–	–	–	–	2,064
Transfers	–	(88,184)	–	(126)	–	–	(2)	87,860	(452)
Movements	5,786	–	176,059	(147,674)	–	(12,233)	6,447	(28,385)	–
Disposals	–	–	–	(685)	–	–	(415)	(235,986)	(237,086)
At 30 June 2015 (unaudited)	5,786	527,732	1,984,812	2,844,146	116,176	58,222	602,440	5,710,682	11,849,996
Accumulated depreciation									
At 1 January 2015 (audited)	–	–	(25,123)	(227,434)	(2,331)	(28,926)	(39,953)	–	(323,767)
Charge for the period	–	–	(28,696)	(63,811)	(4,306)	(6,100)	(19,656)	–	(122,569)
Depreciation on disposals	–	–	–	–	–	–	357	–	357
At 30 June 2015 (unaudited)	–	–	(53,819)	(291,245)	(6,637)	(35,026)	(59,252)	–	(445,979)
Net book value									
At 1 January 2015 (audited)	–	221,908	1,783,630	2,731,901	74,053	37,811	549,817	4,732,875	10,131,995
At 30 June 2015 (unaudited)	5,786	527,732	1,930,993	2,552,901	109,539	23,196	543,188	5,710,682	11,404,017

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INTANGIBLE ASSETS

In thousands of tenge	Subsurface use rights	Other	Total
Cost			
At 1 January 2015 (audited)	**41,608,631**	**36,221**	**41,644,852**
Additions	–	**9,168**	**9,168**
The excess of purchase price over net asset value *(Note 3)*	**7,590,010**	–	**7,590,010**
At 30 June 2015 (unaudited)	**49,198,641**	**45,389**	**49,244,030**
Accumulated amortization			
At 1 January 2015 (audited)	–	**(14,813)**	**(14,813)**
Charge for the period	–	**(4,484)**	**(4,484)**
At 30 June 2015 (unaudited)	–	**(19,297)**	**(19,297)**
Net book value			
At 1 January 2015 (audited)	**41,608,631**	**21,408**	**41,630,039**
At 30 June 2015 (unaudited)	**49,198,641**	**26,092**	**49,224,733**

8. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	2015
Net book value at 1 January (audited)	**2,367,773**
Additions	**568,047**
Disposals	**(12,880)**
Acquisition through business combinations *(Note 3)*	**154,448**
Net book value at 30 June 2015 (unaudited)	**3,077,388**

Exploration and evaluation assets comprise the following capitalized costs:

In thousands of tenge	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Geological and geophysical works	**2,545,994**	2,087,022
Services for preparation of project feasibility study	**176,239**	57,454
Signature bonus	**131,168**	55,118
Salary and related expenses	**73,134**	45,900
Contributions to social-economic regional development and infrastructure development	**37,165**	31,165
Geological information	**8,931**	7,992
Other	**104,757**	83,122
	3,077,388	2,367,773

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATE

	At 30 June 2015 (unaudited)		At 31 December 2014 (audited)	
In thousands of tenge	Share	Amount	Share	Amount
Joint venture				
JV Tau Gold Copper LLP	**50%**	**1,741**	50%	2,980
Associate				
Kazzinc LLP	**29.822%**	**236,977,080**	29.822%	234,166,217
Total investments		**236,978,821**		234,169,197

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATE (continued)

Movements in investments in joint ventures and associate are as follows:

In thousands of tenge	2015
At 1 January (audited)	**234,169,197**
Share in loss of joint ventures and associate	**(245,868)**
Dividends	**(1,882,401)**
Foreign currency translation	**4,937,893**
At 30 June (unaudited)	**236,978,821**

Kazzinc LLP

In accordance with the decision of the general meeting of participants of Kazzinc LLP dated 16 April 2015, the order of distribution of net income of Kazzinc LLP based on the 2014 results was approved. The total amount of dividends declared to the participants of Kazzinc LLP was equal to 6,312,100 thousand tenge, from which 1,882,401 thousand tenge were distributed to the Group.

10. INVENTORY

In thousands of tenge	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Work-in-progress	**3,014,006**	6,048,345
Finished goods	**1,289,146**	3,900,340
Raw materials and supplies	**1,248,571**	273,623
Goods	**9,631**	98,764
Less: allowance for obsolete and slow-moving inventory	**(215,511)**	(430,153)
	5,345,843	9,890,919

Changes in the allowance for obsolete and slow-moving inventory for the six months ended June 30, 2015, were as follows:

In thousands of tenge	2015
At 1 January (audited)	**430,153**
Reverse	**(214,642)**
At 30 June (unaudited)	**215,511**

11. CASH AND CASH EQUIVALENTS

In thousands of tenge	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Bank deposits in tenge	**17,745,360**	11,518,638
Bank deposits in other currencies	**75,580**	81,854
Current bank accounts in US dollars	**136,903**	15,117
Currents bank accounts in tenge	**120,523**	313,891
Current bank accounts in other currencies	**14,092**	46
Cash on hand	**551**	32
	18,093,009	11,929,578

As at 30 June 2015 short-term bank deposits were placed in second-tier Kazakhstani banks with a weighted average interest rate of 10% per annum. For the six months ended 30 June 2015 interest accrued on bank deposits amounted to 763,685 thousand tenge and was recognised as finance income in the interim consolidated statement of comprehensive income.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. EQUITY

Share capital

Movements in the share capital are as follows:

	Ordinary shares	
	Quantity	Amount
At 1 January (audited)	**292,617**	**230,386,253**
Issue of shares	20	1,806,283
At 30 June (unaudited)	**292,637**	**232,192,536**

The Company's share capital comprises ordinary shares. Each ordinary share carries one vote.

In June 2015 the Group additionally issued 20 ordinary shares at the offered price of 90,314 thousand tenge per a share, which were placed and purchased by Samruk-Kazyna in the total amount of 1,806,283 thousand tenge. Payment for the additionally issued shares was made in cash.

Dividends

Based on the 2014 results, the Group declared dividends to Samruk-Kazyna comprising 15% of the consolidated net income in the amount of 22,067 thousand tenge. Based on the 2014 results of 2014, the dividend per an ordinary share of the Group was equal to 75,41 tenge. As at 30 June 2015 the Group has fully paid dividends to Samruk-Kazyna.

Non-controlling interest

In thousands of tenge	2015
At 1 January 2015 (audited)	**420,774**
Total comprehensive income for the period attributable to non-controlling interest	**1,631**
At 30 June 2015 (unaudited)	**422,405**

13. ACCOUNTS PAYABLE

In thousands of tenge	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Accounts payable for acquisition of subsidiary *(Note 3)*	**7,733,640**	410,000
Accounts payable to third parties	**562,144**	577,575
Accounts payable to related parties *(Note 14)*	**53,375**	961,313
	8,349,159	1,948,888

14. RELATED PARTY TRANSACTIONS

Terms and conditions of transactions with related parties

Transactions with related parties were made at terms agreed between the parties that were not necessarily carried out at market rates. Major transactions with related parties for the six months ended 30 June 2015 and 2014, and also balances of such transactions as at 30 June 2015 and 31 December 2014 are as follows:

	For the six months ended 30 June	
In thousands of tenge	2015 (unaudited)	2014 (unaudited)
Sales to related parties		
Entities under control of the Government		
National Bank of the Republic of Kazakhstan *(Note 4)*	**21,940,889**	7,728,618
Kazgeology JSC	**12,880**	–
	21,953,769	7,728,618

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties (continued)

In thousands of tenge	For the six months ended 30 June 2015 (unaudited)	2014 (unaudited)
Purchases from related parties		
Entities under common control of Samruk-Kazyna		
Samruk-Energo JSC	357,110	–
KEGOC JSC	117,325	–
KazMunaiGaz JSC	94,382	66,884
Samruk - Kazyna Contract LLP	10,084	4,305
Kazpost JSC	7,177	1,635
Kazakhstan Temir Zholy JSC	6,736	67
Kazakhtelecom JSC	4,834	4,079
NAC Kazatomprom JSC	1,104	–
Entities under control of the Government		
NGC Kazgeology JSC	–	1,411
Associates of the Group		
Kazzinc LLP	810,650	116,160
	1,409,402	194,541

In thousands of tenge	At 30 June 2015 (unaudited)	At 31 December 2014 (audited)
Accounts receivable from related parties		
Entities under control of the Government		
National Bank of the Republic of Kazakhstan	193,563	2,320,280
	193,563	2,320,280
Accounts payable to related parties		
Entities under common control of Samruk-Kazyna		
KazMunayGas JSC	16,111	12,284
Kazakhtelecom JSC	893	918
Kazpost JSC	165	1,738
NAC Kazatomprom JSC	90	211
Associates of the Group		
Kazzinc LLP	36,116	946,162
	53,375	961,313
Advances paid to related parties		
Entities under common control		
Samruk – Energo JSC	40,604	–
KEGOC JSC	11,419	10,756
Kazpost JSC	2,799	13
Kazakhstan Temir Zholy JSC	1,737	2,265
KazMunayGas JSC	30	–
	56,589	13,034

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. RELATED PARTY TRANSACTIONS (continued)

Compensation to key management personnel

Key management personnel comprise members of the Management Board totalling 24 persons, including 2 independent directors as at 30 June 2015 (at 30 June 2014: 12 persons, including 2 independent directors). During the six-month period ended 30 June 2015, total compensation to the key management personnel in the amount of 101,952 thousand tenge (six-month period ended 30 June 2014: 83,882 thousand tenge) comprised of salaries, annual bonuses and other short-term benefits and was included in general and administrative expenses in the interim consolidated statement of comprehensive income.

15. COMMITMENTS AND CONTINGENCIES

Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

The current regime of fines and penalties related to reported and discovered violations of Kazakhstan's tax laws are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, the amount of penalties and interest may be several times the amount of any unreported taxes.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 30 June 2015. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, or not reasonably determinable, or both.

The Group's operations and consolidated financial position may be affected by political developments in Kazakhstan, including the application of existing and future legislation and tax regulations. The Group does not believe that these potential contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

As at 30 June 2015, the management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained.

Environmental matters

The management of the Group believes that currently the Group complies with all laws and statutory regulations of the Republic of Kazakhstan on environmental protection. However, in case of change of Kazakhstan laws and statutory regulations on environmental protection, the Group cannot forecast the timing and degree of change and its effect on the Group's interim condensed consolidated financial statements.

Management believes that as at 30 June 2015, the Group complies with the legislation of the Republic of Kazakhstan on the environmental protection.

Legal actions and claims

In the ordinary course of business, the Group is subject to legal actions and complaints. The management believes, that the ultimate liability, if any, arising from such actions or complaints will have no material adverse effect either on the consolidated financial position or the consolidated financial results of the Group.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COMMITMENTS AND CONTINGENCIES (continued)

Obligations under subsurface use contracts

As at 30 June 2015 the Group has the following obligations under subsurface use contracts:

In thousands of tenge	Settlement of obligations for six-month period ended 30 June 2015 (unaudited)	2015	2016	2017	2018
Deposit Alaigyr	**167,109**	14,635,591	7,557,600	10,451,100	9,908,700
Deposit Spasskaya CMZ	**255,975**	1,250,945	698,190	561,880	89,991
Deposit Tuyuk-Temirlik	**222,133**	290,138	316,236	124,386	115,880
Deposit Eshkeolmes	**55,306**	222,125	–	–	–
Deposit Predgornyi Ketmen	**6,769**	325,593	–	–	–
Deposit Masalskoe	**146,458**	291,542	1,811,000	17,256,000	17,796,000
Deposit Gagarinskoe	**9,744**	288,814	610,708	371,058	–
Deposit Zhaksylyk	**20,681**	166,269	–	–	–
Deposit Shokpar	**3,509**	305,683	614,703	310,587	–
Deposit Progress	**–**	14,083	284,119	254,029	204,431
Deposit South – Moyintinskyi area	**11,963**	276,116	249,688	302,018	257,013

The Group's activity is subject to reviews by government authorities with respect to the requirements of the respective licenses and subsurface use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of subsurface use contracts could result in fines, penalties, limitation, suspension or revocation of respective contract. The Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's interim condensed consolidated financial statements.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices include four types of risks: interest rate risk, foreign exchange risk, commodity price risk and other price risks such as a risk related to equity instruments. Financial instruments exposed to the market risk comprise loans and borrowings, deposits, available for sale investments and derivatives.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at the price that is close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Financial liabilities of the Group are represented by accounts payable to be paid within 3 (three) months from the reporting date.

Credit risk

The Group is exposed to a credit risk in connection with other financial assets that comprise cash and cash equivalents, short-term bank deposits, and accounts receivable. The Group's exposure to credit risks arises from the possibility of counterparty's default, with a maximum exposure equal to the carrying amount of these instruments.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in exchange rates. As at 30 June 2015 and 31 December 2014 the Group has no significant financial instruments denominated in a foreign currency.

Fair value of financial instruments

The carrying amount of financial instruments approximates their fair value due to the short-term maturity of these instruments.

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

Capital management of the Group is strictly dependent from Samruk-Kazyna capital management strategy. The majority of decisions on capital management are adopted in consultation with the relevant committees of the shareholder. To maintain or adjust the capital structure, Samruk-Kazyna can make contributions to the capital of the Group, provide debt financing or authorize the Group to obtain debt financing from third parties and provide guarantees for all significant external borrowings.

17. SUBSEQUENT EVENTS

On 19 June 2015 the Company entered a loan agreement with Samruk-Kazyna for the total amount of 7,770,000 thousand tenge with maturity of 20 years from the date loan receipt. Tranche on this loan in the amount of 7,733,640 thousand tenge was received on 7 July 2015. The purpose of the loan is to acquire 100% interest in the charter capital of Severnyi Katpar LLP *(Note 3)*. Interest rate on this loan will be 0.1% per annum for 10 (ten) years grace period and after expiration of grace period interest rate will comprise 2%.

On 8 July 2015 the Company repaid payable for the acquisition of subsidiary to three individuals Aubakirov K.Y., Chi A.U., and Zhumabekova G.E. for the amount of 7,733,640 thousand tenge according to the sale-purchase agreement of 100% interest in the charter capital of Severnyi Katpar LLP *(Note 3)*.

On 23 July 2015 during the regular meeting of the Board of Directors of the Company it was agreed to additionally issue 25 ordinary shares with a nominal amount of 83,205 thousand tenge per share for the total amount of 2,080,133 thousand tenge.