JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

Consolidated financial statements
for the year ended 31 December 2013

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management of JSC Kazakhstan Engineering National Company (hereinafter – "the Company") and its subsidiaries (hereinafter together referred as the "Group") is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2013, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with IFRS and legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2013 were approved and authorized for issue by management of JSC Kazakhstan Engineering National Company on 5 March 2014.

Signed on behalf of management of the Group

Bolat Smagulov **Chairman**	**Aliya Zhetenova** **Managing Director**	**Aizhan Burkitbayeva** **Chief accountant**

5 March 2014
Astana, the Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To Shareholder and Board of Directors of Joint Stock Company Kazakhstan Engineering National Company:

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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 about 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 entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Dulat Taituleyev
Engagement Partner
Qualified auditor
Qualification certificate
No. MF-0000095
dated 27 August 2012,
the Republic of Kazakhstan

Deloitte, LLP
State audit license of the Republic of Kazakhstan
No. 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General director
Deloitte, LLP

5 March 2014
Almaty, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF FINANCIAL POSTITION
AS AT 31 DECEMBER 2013
(in thousands of tenge)

	Notes	31 December 2013	31 December 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	13,368,531	10,146,158
Intangible assets	7	347,467	212,306
Investments in joint ventures	9	3,057,799	2,755,260
Investments in associates	10	1,707,626	1,511,816
Other non-current assets	11	889,682	1,063,235
Deferred tax assets	36	456,721	213,691
Investment property		35,674	45,196
Long-term investments		4,417	4,417
Total non-current assets		19,867,917	15,952,079
CURRENT ASSETS:			
Inventory	12	13,684,008	10,887,246
Trade accounts receivable	13	2,444,368	1,817,049
Income tax prepaid		495,478	146,397
Other taxes recoverable	14	997,080	641,505
Restricted cash	15	371,151	87,062
Other current assets	16	5,349,154	6,296,234
Short-term financial investments	17	20,110,038	-
Cash and cash equivalents	18	10,758,902	10,114,635
		54,210,179	29,990,128
Non-current assets classified as held-for-sale		8,708	1,832
Total current assets		54,218,887	29,991,960
TOTAL ASSETS		74,086,804	45,944,039
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	19	12,101,802	12,101,802
Additional paid-in-capital	20	841,018	743,301
Retained earnings		10,005,198	7,696,411
Equity attributable to Parent of the Company		22,948,018	20,541,514
Non-controlling interests	21	631,934	561,383
Total equity		23,579,952	21,102,897
NON-CURRENT LIABILITIES:			
Loans	22	-	462,327
Debt securities issued	23	40,556,598	4,327,836
Finance lease obligations	24	881,969	1,415,843
Employee benefits obligations		38,800	-
Other non-current liabilities	25	134,055	218,216
Deferred tax liabilities	36	704,597	639,649
Debt component of preferred shares		212,775	205,072
Total non-current liabilities		42,528,794	7,268,943

CONSOLIDATED STATEMENT OF FINANCIAL POSTITION
AS AT 31 DECEMBER 2013 (CONTINUED)
(in thousands of tenge)

	Notes	31 December 2013	31 December 2012
CURRENT LIABILITIES:			
Loans and current portion of long-term loans	22	-	6,220,430
Current portion of debt securities issued	23	183,026	34,005
Current portion of finance lease obligations	24	124,311	345,031
Financial liability at fair value through profit or loss	24	-	204,370
Trade accounts payable	26	3,163,228	3,911,553
Employee benefits obligation		4,642	-
Income tax payable		66,067	236,113
Other taxes payable	27	1,069,258	1,427,207
Other current liabilities	28	3,367,526	5,193,490
Total current liabilities		7,978,058	17,572,199
TOTAL EQUITY AND LIABILITIES		74,086,804	45,944,039

Signed on behalf of management of the Group

Bolat Smagulov **Chairman**	**Aliya Zhetenova** **Managing Director**	**Aizhan Burkitbayeva** **Chief accountant**

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-62 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	2013	2012
Continuing operations			
Revenue	29	44,771,432	52,153,614
Cost of sales	30	(36,357,258)	(43,392,917)
Gross profit		8,414,174	8,760,697
General and administrative expenses	31	(4,216,931)	(3,807,427)
Selling expenses	32	(1,144,067)	(841,849)
Other income	33	59,822	618,165
Foreign exchange gain/(loss)		23,433	(21,272)
Share of profit in joint ventures	9	671,981	1,054,613
Share of profit/(loss) in associates	10	226,168	(57,386)
Gain/(loss) on financial liabilities at fair value through profit and loss	24	65,199	(21,140)
Finance income	34	673,189	314,818
Finance costs	35	(1,383,734)	(790,886)
Profit before tax		3,389,234	5,208,333
Income tax expense	36	(306,214)	(670,367)
Profit for the year from continuing operations		3,083,020	4,537,966
Discontinued operations			
Profit for the year from discontinued operations	37	-	20,580
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,083,020	4,558,546
Profit and total comprehensive income attributable to:			
Parent of the Company		2,994,883	4,522,297
Non-controlling interests	21	88,137	36,249
		3,083,020	4,558,546

Signed on behalf of management of the Group

Bolat Smagulov	**Aliya Zhetenova**	**Aizhan Burkitbayeva**
Chairman	**Managing Director**	**Chief accountant**

5 March 2014
Astana, the Republic of Kazakhstan

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to Parent of the Company	Non-controlling interests	Total
At 1 January 2012		12,101,802	522,835	3,874,545	16,499,182	573,174	17,072,356
Profit and total comprehensive income for the year		-	-	4,522,297	4,522,297	36,249	4,558,546
Fair value adjustment on below market interest bearing loan received from Shareholder, less deferred tax effect of 55,117 thousands tenge	22	-	220,466	-	220,466	-	220,466
Measurement of debt component of preferred shares		-	-	(7,226)	(7,226)	-	(7,226)
Dividends	19, 21	-	-	(693,205)	(693,205)	(48,040)	(741,245)
At 31 December 2012		12,101,802	743,301	7,696,411	20,541,514	561,383	21,102,897
Profit and total comprehensive income for the year		-	-	2,994,883	2,994,883	88,137	3,083,020
Fair value adjustment on below market interest bearing loan received from Shareholder, less deferred tax effect of 24,429 thousands tenge	22	-	97,717	-	97,717	-	97,717
Measurement of debt component of preferred shares		-	-	(7,703)	(7,703)	-	(7,703)
Dividends	19, 21	-	-	(678,393)	(678,393)	(17,586)	(695,979)
At 31 December 2013		12,101,802	841,018	10,005,198	22,948,018	631,934	23,579,952

Signed on behalf of management of the Group

Bolat Smagulov **Chairman**	**Aliya Zhetenova** **Managing Director**	**Aizhan Burkitbayeva** **Chief accountant**

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-62 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	2013	2012
OPERATING ACTIVITY:			
Profit before income tax		3,389,234	5,228,913
Adjustments for:			
Amortisation and depreciation	30, 31 32, 33	812,785	621,234
Allowance for doubtful accounts	31	161,688	32,936
Accrual/(recovery) of allowance for obsolete inventories	31	110,146	(56,046)
Loss/(gain) from property, plant and equipment and intangible assets disposal	33	13,874	(532,944)
Foreign exchange (gain)/loss		(23,433)	21,272
Gain from investments disposal		-	(40,371)
Share of profit in joint ventures	9	(671,981)	(1,054,613)
Share of (profit)/loss in associates	10	(226,168)	57,386
(Gain)/loss on financial liabilities at fair value through profit and loss	24	(65,199)	21,140
(Reversal)/accrual of provision for warranty repair	30	(437,308)	371,036
Unused vacation provision and other remunerations	25	322,682	524,442
Reversal of expenses for delivery services		-	(392,792)
Other provisions		48,208	145,840
Finance income	34	(673,189)	(95,377)
Finance costs	35	1,383,734	790,886
Cash flows from operating activity before changes in working capital		4,145,073	5,642,942
Changes in working capital:			
Change in inventory		(3,556,449)	(2,704,973)
Change in trade accounts receivable		(705,055)	(664,257)
Change in value added tax and other taxes recoverable		(355,575)	64,934
Change in other assets		1,559,228	(2,034,694)
Change in trade accounts payable		(606,972)	3,184,505
Change in taxes payable		(379,002)	353,571
Change in other liabilities		(2,056,165)	813,679
Cash (used in)/generated by operating activity		(1,954,917)	4,655,707
Interests paid		(1,148,056)	(445,596)
Income tax paid		(1,006,799)	(736,242)
Net cash (used in)/generated by operating activity		(4,109,772)	3,473,869
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment		(2,409,823)	(2,002,753)
Acquisition of intangible assets		(90,238)	(107,141)
Advances paid for non-current assets	11	(669,595)	(921,130)
Loans given to a related party	16	(524,484)	(2,200,000)
Repayment of loans given		-	54,474
Dividends received		575,497	248,825
Proceeds from disposal of property, plant and equipment		6,290	686,898
Net cash inflow on disposal of subsidiary	37	-	8,436
Contributions to short-term investments		(20,027,800)	(4,671)
Net cash used in investing activity		(23,140,153)	(4,237,062)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)
(in thousands of tenge)

	Notes	2013	2012
FINANCING ACTIVITY:			
Proceeds from debt securities issued	23	40,713,099	4,317,912
Redemption of debt securities		(4,597,294)	-
Loans received		4,919,400	9,913,114
Loans repaid		(11,615,728)	(5,990,938)
Finance lease repaid		(728,230)	(71,999)
Dividends paid		(797,055)	(775,935)
Net cash generated by financing activity		27,894,192	7,392,154
CHANGE IN CASH AND CASH EQUIVALENTS, net		644,267	6,628,961
CASH AND CASH EQUIVALENTS, at the beginning of the year	18	10,114,635	3,485,674
CASH AND CASH EQUIVALENTS, at the end of the year	18	10,758,902	10,114,635

Significant non-cash transactions for the years ended 31 December 2013 and 2012 were as follows:

	2013	2012
Additions of property, plant and equipment and component parts under finance lease (Note 24)	-	1,240,676
Transfer from inventories to property, plant and equipment (Note 6)	522,069	72,713
Transfer from property, plant and equipment to non-current assets classified as held for sale (Note 6)	5,031	-
Transfer from inventories to intangible assets (Note 7)	80,336	-
Fair value adjustment on loan given to joint venture (Note 16)	147,566	72,991
Transfer from inventories to other non-current assets	11,210	63,503
Offset of advances paid against finance lease	-	223,582
Fair value adjustment on loan received from the Shareholder (Note 22)	97,717	220,466
Finance costs capitalized to the cost of property, plant and equipment	202,379	72,405
Accrued depreciation in the cost of finished goods and work-in-progress	27,577	38,656

Signed on behalf of management of the Group

Bolat Smagulov **Chairman**	**Aliya Zhetenova** **Managing Director**	**Aizhan Burkitbayeva** **Chief accountant**

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-62 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

1. GENERAL INFORMATION

Joint Stock Company Kazakhstan Engineering National Company (the "Kazakhstan Engineering" or the "Company") was established in accordance with Decision of the Government of the Republic of Kazakhstan No.244 dated 13 March 2003 for the purpose of development of defence production industry management system in the Republic of Kazakhstan. The Company was registered as a legal entity in the Justice Department of Astana city on 16 April 2003 (registration number No.13659–1901–AO). On 20 May 2005, the Company was reregistered in the Justice Department of Astana city (registration number No.13659-1901-AO).

As at 31 December 2013 and 2012, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (the "Shareholder"). On 15 June 2010, 100% shares were transferred for asset management to Ministry of Defence of the Republic of Kazakhstan. As such, the transfer of shares to trust management did not result in transfer of ownership rights and control to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company and its subsidiaries are:

- participation in state policy on development, production, realisation and liquidation of goods and equipment of defence, civil and twofold purposes;
- participation in development and realisation of current and long-term inter-industry development and production programs of defence and twofold purpose products to satisfy internal needs and export;
- production and import of defence purposes equipment and twofold purpose products for armed forces and other military services of the Republic of Kazakhstan and its export;
- development and realisation of conversion programs and defence-production complex programs;
- participation in execution of state defence orders, forming and realisation of plans for forming and storing mobilization reserves;
- production of oil and gas, railway, aviation, agricultural, ship contracting equipment, production of civil goods.

These consolidated financial statements include financial statements of the Company and its subsidiaries (together referred as the "Group"). Information about Group structure is presented in Note 8.

Legal address: 10, Kunayev st., Astana, the Republic of Kazakhstan.

Number of employees of the Group as at 31 December 2013 was 5,638 people (31 December 2012: 6,458 people).

The consolidated financial statements for the year ended 31 December 2013 were approved by management of the Group on 5 March 2014.

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations adopted during the current year

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of new and revised IFRSs that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising:

IFRS 10 Consolidated Financial Statements,
IFRS 11 Joint Arrangements,
IFRS 12 Disclosure of Interests in Other Entities,
IAS 27 (as revised in 2011) Separate Financial Statements, and
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures.

Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group for the first time has applied these standards and amendments to them.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee; b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain the definition of control.

The Group assessed whether the consolidation conclusion under IFRS 10 Consolidated Financial Statements differs from IAS 27 Consolidated and Separate Financial Statements as at 1 January 2013.

The Group concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

Management of the Group reviewed the classification of the Group's investments in joint arrangements in accordance with the requirements of IFRS 11 and concluded that the Group's investments in all joint arrangements should be classified as joint ventures under IFRS 11 and accounted for using the equity method.

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (Notes 8, 9 and 10).

The Group has applied **IFRS 13** for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Note 40 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

The Group has applied **the amendments to IAS 1** Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Group are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied a number of new and revised IFRSs, which has not resulted in effects on the information in the consolidated statement of financial position as at 1 January 2012.

In the current year, the Group has applied **IAS 19** Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have not had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years. In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The Group has applied the relevant transitional provisions. Application of IAS 19 has not resulted in effects on the information in the consolidated financial statements for the year ended 31 December 2012.

In addition, the Group adopted the amendments to various other standards that were part of the annual initiative aimed at the general improvement of the effective IFRS. These amendments were related to certain expressions and issues regarding presentation of consolidated financial statements, and issues of recognition and measurement. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and have had no material effect on amounts reported.

(in thousands of tenge)

Standards and Interpretations in issue to be adopted in future periods:

The Group has not applied the following new and revised IFRSs and IFRICs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
IFRS 9 Financial instruments	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	1 January 2014
Amendments to IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IAS 36 Impairment of Assets	1 January 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	1 January 2014
IFRIC 21 Levies	1 January 2014

Management of the Group anticipates that all of the Standards and Interpretations will be adopted in the consolidated financial statements of the Group for the period, beginning from the date when the standards will be effective, and adoption of these Standards and Interpretations will not have material effect on the consolidated financial statements of the Group in the period of the initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with IFRS

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency

These consolidated financial statements are presented in Kazakhstani tenge ("tenge"), which is the functional currency of the Group and the currency in which these consolidated financial statements are presented. All financial information presented in tenge has been rounded to the (nearest) thousand.

Foreign currency transactions

In preparing the consolidated financial statements of the Group, transactions in currencies other than the functional (in foreign currencies) are recorded at the exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated at the relevant exchange rate at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising from changes in exchange rates are reflected in profit or loss for the period in the period they arise by a separate item, except for the following:

- exchange differences on loans in foreign currency relating to construction in progress meant for future use for production purposes are included into the cost of such assets as an adjustment of interest expenses on loans in foreign currency;
- exchange differences on hedges of certain currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Going concern basis

These consolidated financial statements have been prepared in accordance with IFRS, on the going concern basis. This assumes the realization of assets and discharge of liabilities in the normal course of business of the Group within the foreseeable future. Management believes that the Group will be able to realize its assets and discharge its liabilities in the normal course of the business. Management of the Group also believes that the Group will continue as a going concern in the foreseeable future.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any recovery of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures a financial asset on initial recognition at fair value at that date. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Property, plant and equipment acquired before 31 December 2006 are stated at their fair value which was determined by an independent appraiser which is deemed cost at the date of transition to IFRS. Cost includes all costs directly attributable to the acquisition of the asset.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost of construction includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Group of assets	Useful lives
Buildings and constructions	8 - 100 years
Machinery and equipment	3 - 20 years
Vehicles	5 - 10 years
Other assets	4 - 20 years

Assets received under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives at rates of 10-20%. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and impairment losses. Depreciation of investment properties is charged based on a straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period when the property is derecognised.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs to sell.

Costs of finished goods and work-in-progress are determined on a weighted-average basis and include direct costs of materials and direct costs for wages and those overheads that have been incurred to bring inventories to their current status and delivery to the existing location.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised based on its principles of recognition at the date of transaction.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration received or paid compensation, including or subtracting the transaction costs, and subsequently measured at fair value or amortised cost.

Fair value is generally determined by reference to the official market quotations. When the market quotations are not available, fair value is determined using generally accepted methods of measurement, such as discounted future cash flows, which are based on market data.

Amortised cost is estimated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include money in bank accounts, cash in transit, cash in hand and short-term deposits with an original maturity not exceeding three months.

Short-term financial investments

Short-term financial investments include short-term deposits with the initial term from three months to one year.

Trade accounts receivable

Trade receivables are recognised and reflected in the accounting records of the amounts billed for payment, net of allowance for doubtful debts. Allowance for doubtful debts accrued by the Group when receivable is not recovered within contractual terms. Allowance for doubtful debts is reviewed periodically and, if there is a need for adjustments, the relevant amounts are recognised in the consolidated statement of comprehensive income of the reporting period, when such was revealed. Bad debts are written off when revealed against previously created allowance.

Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Other financial assets

Other financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, for example: significant change in expected cash flows from investment, significant financial difficulty of the issuer or counterparty, breach of contract, provision of discounts due to financial difficulties of the borrower, it becoming probable that the borrower will enter bankruptcy or financial re-organisation, the disappearance of an active market for that financial asset. For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Preferred shares with fixed dividends represent a combined financial instrument according to the essence of an agreement. Based on this, equity and liability components are presented separately in the consolidated statement of financial position. At initial recognition, equity component is recognized as the initial book value of the instrument less fair value of liability component. Initially recognized fair value of liability component is calculated deduction of the projected cash flows from the similar debt instrument at the market interest rate. Further, the liability component is measured using the same principle as for subordinated debt, and the equity component – the same principle as for share capital.

Financial liabilities are represented by contractual agreements, which are recorded when an obligation under the contracts arises.

Trade and other accounts payable

Trade and other accounts payable initially are measured at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and borrowings

All loans and borrowings are initially recognized at cost representing the fair value of the consideration received less directly attributable borrowing costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses, other than borrowing costs eligible for capitalization (for example, commission on guarantees of third parties), are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Offsets

Financial assets and financial liabilities may be offset and the net amount be shown in the consolidated statement of financial position only when there is a legal right to offset the recognised amounts and the Group has the intention to settle or realise the asset and settle the liability simultaneously.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities (1) acquired principally for the purpose of selling them in the near future, (2) which are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking, or (3) which are designated by the Group at fair value through profit or loss upon initial recognition. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses estimates to determine fair value for financial assets and liabilities at fair value through profit or loss, including embedded derivatives. Fair value adjustment of financial assets and liabilities at fair value through profit or loss are recognized in the consolidated statement of comprehensive income. The Group does not reclassify financial instruments in or out of this category while they are held.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where appropriate, part of a financial asset or part of a group of similar financial assets) is derecognised if:

- expired rights to receive cash flows from the asset;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party in accordance with the transfer agreement, and referred, substantially all the risks and rewards of the asset, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred, substantially all the risks and rewards of the asset, or (b) and not passed on, and kept all the risks and rewards of the asset, but has transferred control of the asset.

If the Group has transferred its rights to receive cash flows from the asset and neither passed nor kept all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent that the Group continues to participate in the asset. Continuance of participation that takes the form of guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of compensation that may be required from the Group as a settlement.

Financial liabilities

Financial liabilities (or part of the financial liability) are derecognised when it is settled, i.e. when under the agreement the obligation is fulfilled, cancelled or expired.

Revenue recognition

Revenue is recognised to the extent that it is probable that the Group will receive certain economic benefits, and income can be calculated or estimated with sufficient accuracy.

Sale of goods

Revenue from the sale of goods is recognised upon delivery of the goods and the transfer of ownership.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as a lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Pension fund liabilities

The Group makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 139,950 tenge per month (2012: not more than 130,792 tenge). Payments to pension funds deducted from employees' salaries and are included in the total cost of salaries and deductions in the consolidated statement of comprehensive income.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments and to use subjective estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of potential assets and liabilities at the date of signing the financial statements and the recorded amounts of revenues and expenses during the reporting period. Despite the fact that these estimates are based on historical knowledge, and other significant factors, events or actions may arise in such a way that actual results will differ from these estimates.

Key assumptions for the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the following financial year are discussed below:

Classification of Eurocopter Kazakhstan engineering LLP, Thales Kazakhstan Engineering LLP, Kazakhstan ASELSAN engineering LLP as joint ventures

Eurocopter Kazakhstan engineering LLP, Thales Kazakhstan Engineering LLP and Kazakhstan ASELSAN engineering LLP are limited liability companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, investments in these joint arrangements are classified as investments in joint ventures (Note 9).

Classification of JSC ZIKSTO, MBM-Kirovets LLP, JSC KAMAZ-Engineering, Indra Kazakhstan Engineering LLP as associates

The Company holds 25% and more interests in JSC ZIKSTO, MBM-Kirovets LLP, JSC KAMAZ-Engineering, Indra Kazakhstan Engineering LLP and other associates. Management of the Company believes that its voting power and presence at the board of directors (supervisory boards) allows the Company to exercise significant influence on the operations of these investees. Accordingly, the Company classifies investments in these companies as investments in associates.

Recognition and estimation of debt component of preferred shares

In the process of use of accounting policies in regard to debt component of the Group's preferred shares, the management applied its judgments to terms of these shares and decided that the Group's preferred shares should be considered as a compound instrument in accordance with IAS 32 (revised) "Financial instruments: Presentation", as there is an obligation to pay dividends to investors. The standard requires that proceeds from issue of such a compound instrument are classified as equity or liability based on preferential right of such an instrument: contractual obligation to pay dividends is classified as liability, while participation in final allocation between shareholders id classified as equity.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The assessment of the useful life of an asset is dependent upon factors such as economic use, repair and maintenance programs, technological advancements and other business conditions. Management's assessment of the useful lives of property, plant and equipment reflects relevant information available to it as at the date of these consolidated financial statements.

Warranty obligations

A provision for warranty is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Impairment of assets

At the end of each reporting period the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. The assessment of whether there is an indication of impairment is based on a number of factors, such as expectations of growth, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment or reversal of an impairment in the future periods.

Valuation of inventories

Inventories are measured at the lower of cost or net realisable value. The Group recognises an allowance to reduce cost of slow-moving and obsolete inventories to the net realisable value. The actual amount of such realisation from disposal of inventories may differ from the net realisable value and any such differences may have a significant effect on future operating results.

Taxation

Kazakhstan legislative acts 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 quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes. Therefore, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

The Group's management believes that the Group has paid or accrued all applicable taxes. In unclear cases, the Group has accrued tax liabilities based on management's best estimate. Group policy requires the formation of reserves in the period in which there is a possibility of loss, the amount of which can be determined with reasonable accuracy.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 2013. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Post-employment benefits

The Group operates a defined benefit scheme which has been accounted for in accordance with IAS 19 Employee Benefits. IAS 19 requires the exercise of judgment in relation to various assumptions including future annual minimum pay rises, employer and pensioner demographics and discount rates. The Group bases IAS 19 estimates on, amongst other things, historical experience and recommendations of its actuaries. A change in assumptions could have a significant impact on the Group's profit or loss in future periods

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on government securities. Based on analysis of data of Kazakhstan Stock Exchange (KASE), the average yield on government bonds was 5.770%. Thus, the discount rate has been determined at this amount.

(in thousands of tenge)

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value using market data, such as forward currency exchange rates and the risk-free discount rate.

5. SEGMENTS INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided; in respect of the ‘specialised products and twofold purposes products’ and ‘civil purposes products’ and ‘services’ operations. No operating segments have been aggregated in arriving at the reportable segments of the Group, except for other products and services, which individually do not exceed quantitative materiality.

Specifically, the Group’s reportable segments are as follows:

- Specialised products and twofold purposes products;
- Civil purposes products; and
- Services (engineering).

Principles of accounting policies of reporting segments do not differ from Group accounting policy, described in Note 3. Management of the Group analyses only revenue from goods and services by segments. This indicator is provided to chief operating decision maker for the purpose of resources allocation and assessment of segment performance by segments.

Group’s revenue analysis from continuing operations by major products and services is as follows:

	2013	2012
Specialised products and twofold purposes products	13,559,193	28,129,393
Civil purposes products	18,671,587	14,243,378
Services (engineering)	12,540,652	9,780,843
	44,771,432	52,153,614

The Group carries out its activity in Kazakhstan.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2012: nil).

The following is an analysis of the Group’s revenue from continuing operations from its major products and services:

	2013	2012
Specialised products and twofold purposes products	13,559,193	28,129,393
Services (engineering)	12,540,652	9,780,843
Civil purposes products:		
- Oil and gas equipment	6,979,003	5,923,120
- Railway equipment	4,613,319	5,363,128
- Other goods	7,079,265	2,957,130
	44,771,432	52,153,614

Specialised products and twofold purposes products are mainly represented by ships, marine and river boats, spare parts and equipment for aircrafts, helicopters and its spare parts and other equipment.

Services (engineering) are mainly represented by capital repair, maintenance and modernisation of ships, machinery and equipment and specialised vehicles.

(in thousands of tenge)

Other goods are mainly represented by digital television and broadcasting equipment, computer equipment, spare parts for agricultural equipment and other consumer goods.

In 2013, specialised products sales were mainly made to ministries and agencies of 24,808,107 thousand tenge, including some services (2012: 32,279,127 thousand tenge, including some services); oil and gas equipment sales were mainly made to JSC NC KazMunaiGas of 6,641,372 thousand tenge (2012: 6,458,771 thousand tenge), railway equipment sales were made to JSC NC Kazakhstan Temir Zholy of 4,224,434 thousand tenge (2012: 5,055,883 thousand tenge) (Note 41).

Group's revenue from continuing operations to external parties by countries is as follows:

	2013	**2012**
Kazakhstan	41,282,905	48,627,926
CIS countries	2,911,327	2,818,855
Other	577,200	706,833
	44,771,432	52,153,614

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in process	Total
Initial or deemed cost:						
At 1 January 2012	171,847	4,576,633	5,514,292	483,361	174,203	10,920,336
Additions	39,957	196,601	735,462	177,015	1,163,512	2,312,547
Additions under finance lease	-	-	1,214,166	-	-	1,214,166
Transfer from inventories	-	18,507	48,001	-	6,205	72,713
Internal movement	-	305,037	(375)	-	(304,662)	-
Loss of control over subsidiary	-	-	(15,846)	-	-	(15,846)
Disposals	(16,529)	(75,769)	(92,122)	(24,098)	-	(208,518)
At 31 December 2012	195,275	5,021,009	7,403,578	636,278	1,039,258	14,295,398
Additions	3,772	270,143	613,183	191,833	2,454,401	3,533,332
Transfer from inventories	-	68,777	89,785	7,202	356,305	522,069
Internal movement	(5,456)	608,002	206,414	75,523	(884,483)	-
Transfer to non-current assets classified as held-for-sale	-	-	(5,029)	(2)	-	(5,031)
Disposals	-	(9,193)	(98,705)	(15,218)	(401)	(123,517)
At 31 December 2013	193,591	5,958,738	8,209,226	895,616	2,965,080	18,222,251
Accumulated depreciation and impairment:						
At 1 January 2012	-	(1,035,796)	(2,408,256)	(177,500)	-	(3,621,552)
Depreciation charge for the year	-	(119,831)	(440,325)	(66,894)	-	(627,050)
Loss of control over subsidiary	-	-	8,543	-	-	8,543
Disposals	-	20,553	63,153	7,113	-	90,819
At 31 December 2012	-	(1,135,074)	(2,776,885)	(237,281)	-	(4,149,240)
Depreciation charge for the year	-	(116,476)	(534,280)	(144,671)	-	(795,427)
Disposals	-	7,669	73,303	9,975	-	90,947
At 31 December 2013	-	(1,243,881)	(3,237,862)	(371,977)	-	(4,853,720)
Carrying value:						
At 31 December 2013	193,591	4,714,857	4,971,364	523,639	2,965,080	13,368,531
At 31 December 2012	195,275	3,885,935	4,626,693	398,997	1,039,258	10,146,158

(in thousands of tenge)

As at 31 December 2013, construction in process mainly includes the following capital expenditures:

- Capital repair of capital expenditures for repair of production workshop buildings and warehouses of subsidiary JSC Semey Engineering of 1,431,695 thousand tenge (31 December 2012: 821,322 thousand tenge);
- "The development of consumable pattern foundry production" and "Nonwoven products project" projects costs in subsidiary JSC Tynys of 348,867 thousand tenge (31 December 2012: 209,231 thousand tenge); and
- "Aeronautic engineering center in Astana" project costs in subsidiary Kazakhstan Aviation Industry LLP of 400,698 thousand tenge (31 December 2012: nil).

As at 31 December 2012, property, plant and equipment with carrying value of 1,708,249 thousand tenge were pledged as a collateral for certain loans received by the Group. As at 31 December 2013, the Group repaid its bank loans (Note 22), however, property, plant and equipment with carrying value of 172,228 thousand tenge had not been released from collateral.

As at 31 December 2013, carrying value of property, plant and equipment received under finance lease amounted to 1,055,743 thousand tenge (31 December 2012: 1,660,059 thousand tenge). This equipment serves as a collateral for the obligations under finance leases.

The cost of fully depreciated property, plant and equipment as at 31 December 2013 and 2012 amounted to 751,346 thousand tenge and 621,358 thousand tenge, respectively.

As at 31 December 2013, carrying value of temporary idle property, plant and equipment amounted to 276,148 thousand tenge (31 December 2012: 123,485 thousand tenge).

7. INTANGIBLE ASSETS

	Software	Other	Total
Initial or deemed cost:			
At 1 January 2012	146,167	103,432	249,599
Additions	103,443	3,698	107,141
Disposals	(182)	(36,245)	(36,427)
Loss of control over subsidiary	(76)	-	(76)
At 31 December 2012	249,352	70,885	320,237
Additions	79,792	10,446	90,238
Transfer from inventories	-	80,336	80,336
Internal movements	(47,753)	47,753	-
At 31 December 2013	281,391	209,420	490,811
Accumulated amortization and impairment:			
At 1 January 2012	(62,057)	(22,763)	(84,820)
Accrued amortization for the year	(11,992)	(11,291)	(23,283)
Disposals	172	-	172
At 31 December 2012	(73,877)	(34,054)	(107,931)
Accrued amortization for the year	(21,432)	(13,981)	(35,413)
At 31 December 2013	(95,309)	(48,035)	(143,344)
Carrying value:			
At 31 December 2013	186,082	161,385	347,467
At 31 December 2012	175,475	36,831	212,306

(in thousands of tenge)

8. SUBSIDIARIES

Name	Principal activity	Country	Ownership share 31 December 2013	2012
JSC 811 Motor-repair Plant KE	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%
JSC Omega Instrument Making Plant	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
Kuzet LLP	Security	Kazakhstan	-	100%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Uralsk Plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
SRI Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction)	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%

In August 2013, the Company sold its 65% ownership interest in dormant subsidiary Kuzet LLP (Note 37).

On 1 October 2012, the Company sold its 51% ownership interest in subsidiary Kazakhstan engineering Distribution LLP. As a result, it started accounting for the residual share as an investment in associate (Notes 10 and 37).

(in thousands of tenge)

The subsidiary with significant non-controlling interest is JSC Munaymash. Non-controlling interests in all other subsidiaries are represented by preferred shares.

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
JSC Munaymash	48%	48%	88,137	36,249	475,877	407,282

Summarised financial information in respect of JSC Munaymash that has significant non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31 December 2013	31 December 2012
Current assets	1,386,670	971,012
Non-current assets	1,444,929	1,585,028
Current liabilities	(831,466)	(684,814)
Non-current liabilities	(1,007,876)	(1,021,997)
Equity attributable to Parent of the Company	516,380	441,947
Non-controlling interests	475,877	407,282

	2013	2012
Revenue	3,303,863	2,466,908
Expenses	(3,120,087)	(2,391,325)
Profit and total comprehensive income for the year	183,776	75,583
Attributable to:		
to Parent of the Company	95,639	39,334
to the non-controlling interests	88,137	36,249
Profit and total comprehensive income for the year	183,776	75,583
Dividends paid to non-controlling interests	17,586	48,040
Net cash inflow/(outflow) from:		
- operating activities	259,409	(44,317)
- investing activities	(15,939)	3,215
- financing activities	(206,511)	(1,506)
Net cash inflow/(outflow)	36,959	(42,608)

(in thousands of tenge)

9. INVESTMENTS IN JOINT VENTURES

The Group's investments in joint ventures are as follows:

Name	Principal activity	Country	Ownership share 31 December 2013	2012	Fair value
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	Kazakhstan	50%	50%	Not publicly traded
Thales Kazakhstan Engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment for defence services	Kazakhstan	50%	50%	Not publicly traded
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	50%	50%	Not publicly traded

Name	1 January 2013	Contributions/ (received dividends)	Share of profit/(loss)	31 December 2013
Eurocopter Kazakhstan engineering LLP	2,452,009	(517,008)	828,074	2,763,075
Thales Kazakhstan Engineering LLP	201,295	-	(105,849)	95,446
Kazakhstan ASELSAN engineering LLP	101,956	147,566	(50,244)	199,278
	2,755,260	(369,442)	671,981	3,057,799

Name	1 January 2012	Contributions/ (received dividends)	Share of profit/(loss)	31 December 2012
Eurocopter Kazakhstan engineering LLP	1,615,026	(232,406)	1,069,389	2,452,009
Thales Kazakhstan Engineering LLP	220,406	-	(19,111)	201,295
Kazakhstan ASELSAN engineering LLP	24,630	72,991	4,335	101,956
	1,860,062	(159,415)	1,054,613	2,755,260

(in thousands of tenge)

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with IFRS.

At 31 December 2013	**Eurocopter Kazakhstan engineering LLP**	**Thales Kazakhstan Engineering LLP**	**Kazakhstan ASELSAN engineering LLP**
Current assets, including	5,512,094	489,499	2,260,303
Cash and cash equivalents	*4,756,400*	*768*	*102,321*
Non-current assets	1,830,974	222,715	5,425,908
Current liabilities, including	(1,816,919)	(514,457)	(7,523,408)
Current financial liabilities (less trade and other payables and provisions)	-	*(31,368)*	*(5,028,940)*
Non-current liabilities	-	(6,865)	(59,379)
Net assets	5,526,149	190,892	103,424
Net assets attributable to the Group	2,763,075	95,446	51,712
Other adjustments	-	-	147,566
Carrying value of investments	2,763,075	95,446	199,278
For the year ended 31 December 2013			
Revenue	10,512,200	-	-
Profit/(loss) and total comprehensive income/(loss) for the year	1,656,149	(211,697)	(100,488)
Share of profit/(loss) in joint ventures	828,074	(105,849)	(50,244)
Dividends received from joint ventures	517,008	-	-

(in thousands of tenge)

At 31 December 2012	**Eurocopter Kazakhstan engineering LLP**	**Thales Kazakhstan Engineering LLP**	**Kazakhstan ASELSAN engineering LLP**
Current assets	8,638,507	583,507	3,022,992
Cash and cash equivalents	*5,531,744*	*25,412*	*1,318*
Non-current assets	1,707,970	233,255	793,033
Current liabilities	(5,442,459)	(410,662)	(3,758,095)
Current financial liabilities (less trade and other payables and provisions)	-	-	*(3,717,053)*
Non-current liabilities	-	(3,510)	-
Net assets	4,904,018	402,590	57,930
Net assets attributable to the Group	2,452,009	201,295	28,965
Other adjustments	-	-	72,991
Carrying value of investments	2,452,009	201,295	101,956
For the year ended 31 December 2012			
Revenue	13,478,691	623,623	152,303
Profit/(loss) and total comprehensive income/(loss) for the year	2,138,778	(38,222)	8,670
Share of profit/(loss) in joint ventures	1,069,389	(19,111)	4,335
Dividends received from joint ventures	232,406	-	-

During 2013, the Company recognised a fair value adjustment on loan given to Kazakhstan ASELSAN engineering LLP in the cost of investments of 147,566 thousand tenge (2012: Kazakhstan ASELSAN engineering LLP – 72,991 thousand tenge) (Note 16).

(in thousands of tenge)

10. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are as follows:

Name	Principal activity	Country	Ownership share 31 December 2013	Ownership share 31 December 2012	Fair value
JSC ZIKSTO	Repair of freight rail cars, repair of wheel sets with replacement of elements	Kazakhstan	42%	42%	Not publicly traded
MBM-Kirovets LLP	Freight wagons repair, repair of wheel pairs	Kazakhstan	49%	49%	Not publicly traded
JSC KAMAZ-Engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	25%	25%	Not publicly traded
Indra Kazakhstan Engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	Kazakhstan	49%	49%	Not publicly traded
KAMAZ-Semey LLP	Commercial activity	Kazakhstan	49%	49%	Not publicly traded
Kaz-ST Engineering Bastau LLP	Investment holding activity and provision of defence, engineering services	Kazakhstan	49%	49%	Not publicly traded
Kazakhstan engineering Distribution LLP	Distribution of goods produced by the Group, investments attraction, participation in state programs and state purchases for equipment supply	Kazakhstan	49%	49%	Not publicly traded

Name	1 January 2013	Contributions/ (received dividends)	Share of profit/(loss)	31 December 2013
JSC ZIKSTO	700,013	-	57,230	757,243
MBM-Kirovets LLP	355,576	-	(10,600)	344,976
JSC KAMAZ-Engineering	314,668	(30,358)	167,104	451,414
Indra Kazakhstan Engineering LLP	108,611	-	17,021	125,632
Kaz-ST Engineering Bastau LLP	15,139	-	(4,587)	10,552
OJSC Ulan	17,809	-	-	17,809
KAMAZ-Semey LLP	-	-	-	-
Kazakhstan engineering Distribution LLP	-	-	-	-
	1,511,816	(30,358)	226,168	1,707,626

Name	1 January 2012	Contributions/ (received dividends)	Share of profit/(loss)	31 December 2012
JSC ZIKSTO	844,685	(71,664)	(73,008)	700,013
MBM-Kirovets LLP	354,560	(2,000)	3,016	355,576
JSC KAMAZ-Engineering	304,142	(14,164)	24,690	314,668
Indra Kazakhstan Engineering LLP	119,474	(182)	(10,681)	108,611
Kaz-ST Engineering Bastau LLP	15,547	-	(408)	15,139
OJSC Ulan	17,809	-	-	17,809
KAMAZ-Semey LLP	-	-	-	-
Kazakhstan engineering Distribution LLP	-	995	(995)	-
	1,656,217	(87,015)	(57,386)	1,511,816

(in thousands of tenge)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRS.

At 31 December 2013	**JSC ZIKSTO**	**MBM-Kirovets LLP**	**JSC KAMAZ-Engineering**	**Other aggregated**
Current assets	2,882,576	87,559	4,121,600	366,696
Non-current assets	677,595	642,491	479,124	268,391
Current liabilities	(1,734,686)	(19,698)	(2,795,069)	(472,520)
Non-current liabilities	(28,090)	(6,320)	-	(103)
Net assets	1,797,395	704,032	1,805,655	162,464
Net assets attributable to the Group	757,243	344,976	451,414	153,993
Accumulated unrecognised share in losses	-	-	-	(49,709)
For the year ended 31 December 2013				
Revenue	4,232,204	131,303	14,708,526	653,379
Profit/(loss) and total comprehensive income/(loss) for the year	135,841	(21,633)	668,415	(46,847)
Share of profit/(loss) in associates	57,230	(10,600)	167,104	12,434
Unrecognised share in losses for the year	-	-	-	(35,389)
Dividends received from associates	-	-	30,358	-

(in thousands of tenge)

At 31 December 2012	**JSC ZIKSTO**	**MBM-Kirovets LLP**	**JSC KAMAZ-Engineering**	**Other aggregated**
Current assets	2,212,062	124,936	2,824,076	136,121
Non-current assets	810,541	630,798	1,158,518	167,348
Current liabilities	(1,242,589)	(25,129)	(2,723,877)	(96,774)
Non-current liabilities	(118,460)	(4,940)	(44)	-
Net assets	1,661,554	725,665	1,258,673	206,695
Net assets attributable to the Group	700,013	355,576	314,668	141,559
Accumulated unrecognised share in losses	-	-	-	(14,320)
For the year ended 31 December 2012				
Revenue	4,815,311	145,302	8,733,237	326,385
Profit/(loss) and total comprehensive income/(loss) for the year	(173,292)	6,155	98,759	(37,945)
Share of profit/(loss) in associates	(73,008)	3,016	24,690	(12,084)
Unrecognised share in losses for the year	-	-	-	(14,320)
Dividends received from associates	71,664	2,000	14,164	182

11. OTHER NON-CURRENT ASSETS

	31 December 2013	**31 December 2012**
Advances paid for property, plant and equipment	669,595	921,130
Inventories for capital repair and construction of non-current assets	74,713	63,503
Loans given to employees	11,373	18,505
Finance lease receivables	-	157,638
Other non-current assets	134,001	60,097
	889,682	1,220,873
Less: allowance for doubtful debts	-	(157,638)
	889,682	1,063,235

During 2013, the Group wrote off finance lease receivables against previously created allowance of 157,638 thousand tenge.

(in thousands of tenge)

12. INVENTORY

	31 December 2013	31 December 2012
Raw materials	7,055,835	5,077,604
Work-in-progress	4,643,747	3,499,630
Finished goods	1,971,604	2,101,415
Goods for sale	382,160	420,635
Other	-	96,163
	14,053,346	11,195,447
Less: allowance for obsolete inventories	(369,338)	(308,201)
	13,684,008	10,887,246

Movement in allowance for obsolete inventories for the years ended 31 December is presented as follows:

	2013	2012
Allowance for obsolete inventories at the beginning of the year	(308,201)	(364,247)
(Accrued)/recovered during the year	(110,146)	56,046
Written-off against previously created allowance	49,009	-
Allowance for obsolete inventories at the end of the year	(369,338)	(308,201)

13. TRADE ACCOUNTS RECEIVABLE

	31 December 2013	31 December 2012
Trade receivables from related parties (Note 41)	1,815,418	748,796
Trade receivables from third parties	739,638	1,113,795
	2,555,056	1,862,591
Less: allowance for doubtful debts	(110,688)	(45,542)
	2,444,368	1,817,049

Movement in allowance for doubtful debts for the years ended 31 December is presented as follows:

	2013	2012
Allowance for doubtful debts at the beginning of the year	(45,542)	(44,132)
Accrued during the year	(90,142)	(1,616)
Written-off against previously created allowance	24,996	206
Allowance for doubtful debts at the end of the year	(110,688)	(45,542)

(in thousands of tenge)

As at 31 December, trade accounts receivable net of allowance for doubtful debts are denominated in the following currencies:

	31 December 2013	31 December 2012
Tenge	2,394,324	1,806,440
Russian roubles	50,044	10,609
	2,444,368	1,817,049

14. OTHER TAXES RECOVERABLE

	31 December 2013	31 December 2012
Value added tax	941,909	604,010
Other taxes recoverable	55,171	37,495
	997,080	641,505

15. RESTRICTED CASH

	31 December 2013	31 December 2012
Cash on special bank accounts	371,151	87,062
	371,151	87,062

As at 31 December 2013 and 2012, restricted cash represents cash on special bank accounts as a guarantee for execution of contracts.

As at 31 December 2013 and 2012, restricted cash of 82,730 thousand tenge and 80,947 thousand tenge, respectively, were placed on bank accounts with related parties (Note 41).

16. OTHER CURRENT ASSETS

	31 December 2013	31 December 2012
Loans to a related party (Note 41)	2,732,911	2,200,000
Short-term advances given to third parties	2,222,702	3,492,561
Warranty deposits for execution of contracts	182,941	-
Prepaid expenses	97,698	97,140
Short-term advances given to related parties (Note 41)	76,140	20,806
Dividends receivable (Note 41)	45,962	71,592
Receivable from employees	27,408	34,209
Other receivable from third parties	78,699	463,939
	5,464,461	6,380,247
Less: fair value adjustment (Note 41)	(39,919)	(31,810)
Less: allowance for doubtful debts	(75,388)	(52,203)
	5,349,154	6,296,234

(in thousands of tenge)

In 2012, the Company provided interest-free loans to Kazakhstan ASELSAN engineering LLP of 2,200,000 thousand tenge with a maturity until 31 March 2013. The Company measured these loans at amortised cost using market interest rate of 7% at the date of loans provision and recognised a fair value adjustment in the cost of investments in joint venture of 72,991 thousand tenge (Note 9). Also, during 2012, the Company recognised amortization of fair value adjustment in finance income of 41,181 thousand tenge.

On 31 Mach 2013, the Company remeasured these loans at amortised cost and recognised a fair value adjustment of 147,566 thousand tenge in the cost of investments in joint venture (Note 9).

On 25 December 2013, the Company amended contract terms on loans given to Kazakhstan ASELSAN engineering LLP, whereby maturity was prolonged to 25 March 2014 and repayment amount was pinned to U.S. dollar at exchange rate as of date of repayment.

Also, during 2013, the Company provided a loan of 524,484 thousand tenge to Kazakhstan ASELSAN engineering LLP at annual interest rate of 7.5% with a maturity until 31 July 2014.

For the year ended 31 December 2013, finance income amounted to 147,884 thousand tenge, including interest income of 8,427 thousand tenge and amortisation of fair value adjustment of 139,457 thousand tenge (Note 34).

Warranty deposits represent cash placed on customers' bank accounts as a guarantee for execution of contracts, which are receivable upon completion of contracts.

Movement in allowance for doubtful debts for the years ended 31 December is presented as follows:

	2013	**2012**
Allowance for doubtful debts at the beginning of the year	(52,203)	(23,332)
Accrued during the year	(71,546)	(31,320)
Written-off against previously created allowance	48,361	2,449
Allowance for doubtful debts at the end of the year	(75,388)	(52,203)

As at 31 December 2013 and 2012, other current assets are denominated in tenge, except for indexed interest-free loan with carrying value of 2,160,081 thousand tenge.

17. SHORT-TERM FINANCIAL INVESTMENTS

As at 31 December 2013, short-term financial investments represented a bank deposit at JSC Tsesna Bank of 130,534 thousand U.S. dollars (or 20,110,038 thousand tenge), including accrued interest of 534 thousand U.S. dollars, with a maturity of 12 months and bearing an interest of 5% (31 December 2012: nil).

18. CASH AND CASH EQUIVALENTS

	31 December 2013	**31 December 2012**
Cash on bank accounts in tenge	7,231,841	9,106,226
Cash on bank accounts in foreign currencies	3,133,499	66,266
Short-term deposits	366,063	924,505
Petty cash in tenge	26,394	15,290
Cash on special bank accounts in tenge	817	-
Cash in transit in tenge	288	2,348
	10,758,902	10,114,635

As at 31 December 2013, the Group placed cash on short-term deposits at JSC Tsesna Bank and JSC BTA Bank with an initial maturity from 1 to 3 months and annual interest rates from 4% to 6.7% (31 December 2012: from 3.8% to 6%).

(in thousands of tenge)

Cash and cash equivalents are denominated in the following currencies:

	31 December 2012	31 December 2011
Tenge	7,625,403	10,043,419
US dollars	3,085,714	419
Russian roubles	47,083	64,043
Euro	702	-
Other currencies	-	6,754
	10,758,902	10,114,635

19. CHARTER CAPITAL

As at 31 December 2013 and 2012, authorized, issued and fully paid charter capital of the Company consists of common shares of 12,101,802 shares with par value of 1,000 tenge, each.

As at 31 December 2013 and 2012, 100% of Company's shares belong to JSC SWF Samruk-Kazyna.

In 2013, the Company declared and paid dividends to its Shareholder in the amount of 678,393 thousand tenge for 2012 (2012: dividends for 2010 and 2011 of 48,352 thousand tenge and 644,853 thousand tenge, respectively).

20. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2013 and 2012, additional paid-in-capital amounted to 841,018 thousand tenge and 743,301 thousand tenge, respectively. Additional paid-in-capital includes the following:

- a difference between the value of shares paid by PA Committee on State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan as a contribution to the charter capital and the value of registered charter capital of the Company of 428,612 thousand tenge (2012: 428,612 thousand tenge);
- a fair value adjustment, less deferred tax effect, on the below market rate loan from Shareholder of 412,406 thousand tenge (2012: 314,689 thousand tenge) (Note 22).

21. NON-CONTROLLING INTERESTS

	2013	2012
At 1 January	561,383	573,174
Net profit and total comprehensive income for the year, attributable to non-controlling interests	88,137	36,249
Dividends	(17,586)	(48,040)
At 31 December	631,934	561,383

During 2013, the subsidiary, JSC Munaymash, declared dividends for 2012 of 17,586 thousand tenge (2012: 48,040 thousand tenge for 2011) payable to non-controlling interests.

(in thousands of tenge)

22. LOANS

	Maturity	Interest rate	31 December 2013	31 December 2012
Secured loans				
JSC Halyk Bank of Kazakhstan	November 2016	8%-16%	-	918,527
JSC BTA Bank	January 2015	8%-12.54%	-	853,913
			-	1,772,440
Unsecured loans				
JSC SWF Samruk-Kazyna		-	-	5,017,084
Less: fair value adjustment			-	(106,767)
			-	4,910,317
			-	6,682,757
Short-term loans and current portion of long-term loans			-	6,220,430
Long-term loans			-	462,327
			-	6,682,757

JSC SWF Samruk-Kazyna

In 2012, the Company received a loan from the Shareholder of 5,000,000 thousand tenge with an annual interest rate of 3% with a maturity until 30 December 2013. Principal amount is paid at maturity date and interests are paid monthly. The loan was aimed for financing the creation of center for production of electronic-optical equipment in Kazakhstan and for creation of own production for modernisation, engineering-technical support and maintenance of defence purposes equipment on the basis of subsidiary. The Company measured the fair value of this loan using the effective interest rate of 7%, and recognised a fair value adjustment of 275,583 thousand tenge, net of tax effect of 55,117 thousand tenge as an additional paid-in capital in the consolidated statement of changes in equity.

In 2013, the Company received a loan from the Shareholder in the amount of 4,700,000 thousand tenge, bearing an interest rate of 4% per annum, with a maturity until 31 December 2013. The loan was provided for the working capital replenishment of the Company for the implementation of sales contracts in relation to the civil sector. The Company measured the fair value of the loan using the effective interest rate of 7%, and recognized a fair value adjustment of 122,146 thousand tenge, net of tax effect in the amount of 24,429 thousand tenge as an additional paid-in capital in the consolidated statement of changes in equity.

During 2013, both loans were fully repaid.

As at 31 December 2012, all loans were denominated in tenge.

Loans repayment is made in the following terms:

	31 December 2013	31 December 2012
Within one year	-	6,220,430
Within second year	-	307,017
Within third year	-	101,568
In subsequent years	-	53,742
	-	6,682,757

(in thousands of tenge)

23. DEBT SECURITIES ISSUED

	Maturity	Coupon rate	31 December 2013	31 December 2012
Local bonds issued at a price of:				
95.2341% - Tranche 1	6 November 2015	5%	4,534,000	4,534,000
96.4613% - Tranche 2	6 November 2015	5%	1,200,000	-
96.9239% - Tranche 3	6 November 2015	5%	1,000,000	-
97.3266% - Tranche 4	6 November 2015	5%	1,885,000	-
97.8540% - Tranche 5	6 November 2015	5%	1,765,000	-
Eurobonds issued at a price of 100%	3 December 2016	4.55%	30,812,000	
Including/(less):				
Accrued coupon			183,026	34,005
Transaction costs			(315,935)	(10,164)
Discount on debt securities issued			(323,467)	(196,000)
Total bonds placed			40,739,624	4,361,841
Less: current portion of debt securities issued			(183,026)	(34,005)
Non-current portion of debt securities issued			40,556,598	4,327,836

Local bonds

As part of the objectives of the Group for the development of domestic machine-assembling sector, the Board of Directors (Minutes No.90 dated 26 September 2012) approved the first bond issue in the amount of 15 billion tenge under the Programme for the issuance of local bonds of the Company. Total volume under the Programme for the issuance is 30 billion tenge.

On 7 December 2012, the Company placed on Kazakhstan Stock Exchange ("KASE") 45,340 thousand local unsecured bonds (KZP01Y03E322) with par value of 100 tenge for the amount of 4,534,000 thousand tenge with annual coupon rate of 5%. Coupon on bonds is paid 2 times a year from the date of placement.

During February-April 2013, the Company placed 103,150 thousand bonds with par value of 100 tenge totalling 10,315,000 thousand tenge.

Eurobonds

As part of the objectives of the Group for the development of domestic machine-assembling sector, by a resolution of the Board of Directors dated 29 August 2013 and a resolution of the Board of Directors dated 4 November 2013, an issuance of 200 million U.S. dollars Eurobonds was approved.

On 3 December 2013, the Company placed on Irish Stock Exchange ("ISE") and Kazakhstan Stock Exchange ("KASE") 200 million unsecured bonds (XS0997708051) with a par value of 1 U.S. dollar for a total amount of 200 million US dollars with annual coupon rate of 4.55%. Interest on the Eurobonds is payable semi-annually in arrear on 3 June and 3 December in each year, commencing on 3 June 2014.

Out of proceeds from the Eurobonds issuance, the Company redeemed a portion of its 44,650 thousand local bonds totalling 4,465,000 thousand tenge (Tranches 2 and 4) and repaid its loans (Note 22).

(in thousands of tenge)

24. FINANCE LEASE OBLIGATIONS

	Minimal lease payments		Present value of minimum lease payments	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Less than one year	176,049	410,571	124,311	345,031
From one to five years	772,318	1,461,767	625,047	1,074,546
More than five years	260,944	406,124	256,922	341,297
	1,209,311	2,278,462	1,006,280	1,760,874
Less future finance costs	(203,031)	(517,588)	-	-
	1,006,280	1,760,874	1,006,280	1,760,874
Recognised in:				
- current liabilities			124,311	345,031
- non-current liabilities			881,969	1,415,843
			1,006,280	1,760,874

In 2007, the Group entered into finance lease agreement for production equipment with JSC DBK-Leasing for 10 years at an interest rate of 8%.

Under this agreement the Group made payments of principal and interest in the tenge, which were indexed to the exchange rate of US dollar at the payment date. The Group believes that this indexation is an embedded derivative that is not directly related to the host contract of the lease and, therefore, requires separate recognition. To determine the fair value of embedded derivative financial instruments the Group used assessment methods that are widely used in the market and which require the use of market data. As at 31 December 2012, an embedded derivative amounted to 204,370 thousand tenge. During 2013, the Group fully repaid the lease, while the difference between tenge amount and the indexed amount was fixed at 138,171 thousand tenge as of date of repayment and deferred over the period till April 2017. For the year ended 31 December 2013, the Group recognised gain on financial liabilities at fair value through profit and loss of 66,199 thousand tenge (2012: loss of 21,140 thousand tenge). Deferred payable amounts were recognised in other non-current and current liabilities.

In 2011, the Group entered into finance lease agreement for production equipment with JSC DBK-Leasing for 10 years at an interest rate of 7.5% and made an advance payment under this agreement. In October 2012, equipment and its assembling parts were received under the lease agreement of 1,240,676 thousand tenge. In 2013, interest rate was reduced to 5%.

Finance lease obligations are denominated in tenge.

25. OTHER NON-CURRENT LIABILITIES

	31 December 2013	31 December 2012
Long-term payables to third parties	95,837	25,974
Provisions	33,920	36,176
Long-term advances received from related parties (Note 41)	-	145,393
Deferred income – government grants	-	10,673
Other deferred income	4,298	-
	134,055	218,216

(in thousands of tenge)

Movement in provisions is presented as follows:

	Warranty repair	**Unused vacation and other remunerations**	**Other accrued liabilities**	**Total**
At 1 January 2012	172,404	263,814	392,529	828,747
Recognised in:				
non-current liabilities	54,956	-	-	54,956
current liabilities	117,448	263,814	392,529	773,791
	172,404	263,814	392,529	828,747
Accrued/(recovered) for the year	371,036	524,442	(246,952)	648,526
At 31 December 2012	543,440	788,256	146,577	1,478,273
Recognised in:				
non-current liabilities	10,891	-	25,285	36,176
current liabilities (Note 28)	532,549	788,256	121,292	1,442,097
	543,440	788,256	146,577	1,478,273
Accrued/(recovered) for the year	(437,308)	322,682	4,766	(109,860)
Repaid/used	(31,551)	(735,592)	(98,709)	(865,852)
At 31 December 2013	74,581	375,346	52,634	502,561
Recognised in:				
non-current liabilities	12,349	21,571	-	33,920
current liabilities (Note 28)	62,232	353,775	52,634	468,641
	74,581	375,346	52,634	502,561

Other non-current liabilities are denominated in tenge.

26. TRADE ACCOUNTS PAYABLE

	31 December 2013	**31 December 2012**
Accounts payable to suppliers and contractors	1,695,563	1,700,339
Accounts payable to related parties (Note 41)	1,467,665	2,211,214
	3,163,228	3,911,553

Trade accounts payable are denominated in the following currencies:

	31 December 2013	**31 December 2012**
Tenge	2,204,251	2,916,702
Russian roubles	734,952	392,781
US dollars	219,248	602,070
Euro	4,777	-
	3,163,228	3,911,553

(in thousands of tenge)

27. OTHER TAXES PAYABLE

	31 December 2013	31 December 2012
VAT payable	604,598	1,112,089
Pension and social contributions	173,927	147,283
Personal income tax	161,554	88,953
Social tax	116,071	70,359
Other taxes	13,108	8,523
	1,069,258	1,427,207

28. OTHER CURRENT LIABILITIES

	31 December 2013	31 December 2012
Advances received from related parties (Note 41)	1,496,563	2,266,022
Advances received from third parties	822,639	810,322
Provisions	468,641	1,442,097
Salary payable	240,155	236,877
Dividends payable to third parties	177,191	179,583
Dividends payable to the Shareholder (Note 41)	-	66,000
Deferred income – government grants	-	2,738
Other deferred income	2,968	6,325
Other payables	159,369	183,526
	3,367,526	5,193,490

Other current liabilities are mainly denominated in tenge.

29. REVENUE

	2013	2012
Revenue from finished goods sale	32,207,362	42,372,771
Revenue from rendering services	12,540,652	9,780,843
Other	23,418	-
	44,771,432	52,153,614

In 2013, revenue from related party operations amounted to 35,794,978 thousand tenge (2012: 43,954,655 thousand tenge) (Note 41).

(in thousands of tenge)

30. COST OF SALES

	2013	2012
Raw materials	25,180,548	32,499,723
Payroll and related taxes	6,513,963	5,822,864
Subcontractors' services	3,866,115	1,327,019
Depreciation and amortisation	638,675	505,444
Utilities	607,132	516,227
Repair and maintenance	419,163	1,700,627
Accrual of provision for unused vacation	246,864	376,350
(Reversal)/accrual of provision for warranty repair (Note 25)	(437,308)	371,036
Provision for employee benefits obligations	37,826	-
Other	298,586	426,890
	37,371,564	43,546,180
Work-in-progress at the beginning of the year	3,499,630	3,305,142
Work-in-progress at the end of the year (Note 12)	4,643,747	3,499,630
Change in work-in-progress	(1,144,117)	(194,488)
Finished goods at the beginning of the year	2,101,415	2,142,640
Finished goods at the end of the year (Note 12)	1,971,604	2,101,415
Change in finished goods	129,811	41,225
	36,357,258	43,392,917

31. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Payroll and related taxes	2,014,292	2,058,890
Taxes	247,798	235,419
Business trips and representative expenses	210,977	190,032
Rent expenses	180,394	124,727
Depreciation and amortisation	174,150	136,828
Allowance for doubtful debts (Notes 13 and 16)	161,688	32,936
Professional services	128,453	123,025
Accrual/(recovery) of allowance for obsolete inventories (Note 12)	110,146	(56,046)
Bank commissions	77,615	73,021
Provision for unused vacation	66,686	141,640
Utilities	63,755	116,083
Communication	61,279	27,799
Repair and maintenance	52,091	19,290
Materials	47,077	34,239
Education of personnel	27,952	22,657
Security	21,666	20,422
Provision for employees remuneration and employees benefits	14,748	6,452
Transportation	14,528	16,861
Fines and penalties	12,646	32,691
Charity and sponsorship	6,622	16,817
Accrual/(recovery) of other provisions (Note 25)	4,766	(246,952)
Other	517,602	680,596
	4,216,931	3,807,427

(in thousands of tenge)

32. SELLING EXPENSES

	2013	2012
Transportation	297,736	236,610
Payroll and related taxes	278,900	223,121
VAT non-recoverable	134,632	153,611
Business trips	120,127	85,033
Depreciation and amortization	13,532	13,664
Advertising and marketing	12,687	77,705
Utilities	6,974	5,813
Other	279,479	46,292
	1,144,067	841,849

33. OTHER INCOME

	2013	2012
Rent income	138,596	93,021
Income from inventory sale	20,121	65,342
Loss on disposal of intangible assets	-	(36,255)
(Loss)/gain from disposal of property, plant and equipment	(13,874)	569,199
Depreciation and amortization	(14,005)	(3,954)
Charity	(84,942)	(54,560)
Other gains/(losses)	13,926	(14,628)
	59,822	618,165

34. FINANCE INCOME

	2013	2012
Interest on short-term deposits and current accounts	525,305	268,219
Amortisation of fair value adjustment on loans given	139,457	46,599
Interest income on loans given	8,427	-
	673,189	314,818

Finance income on short-term deposits and current accounts from related parties amounted to 7,637 thousand tenge (2012: 7,033 thousand tenge) (Note 41).

35. FINANCE COSTS

	2013	2012
Coupon on bonds issued	708,382	34,005
Interest on loans	320,901	406,462
Amortisation of discount on bonds issued	205,015	9,924
Interest on finance lease	71,860	128,506
Amortisation of fair value adjustment on loans received from the Shareholder	28,485	191,034
Dividends on preferred shares	21,186	20,955
Other finance costs	27,905	-
	1,383,734	790,886

Finance costs from related parties amounted to 310,293 thousand tenge (2012: 588,594 thousand tenge) (Note 41).

(in thousands of tenge)

36. TAXATION

	2013	2012
Current income tax expense	593,725	813,667
Adjustment of current income tax for prior years	(85,000)	-
Deferred tax benefit	(202,511)	(143,300)
Income tax expense	306,214	670,367

A reconciliation of expected income tax expense at income tax rate of 20% per financial statements with tax accounting is presented below:

	2013	2012
Profit before income tax from continuing operations	3,389,234	5,208,333
Theoretical income tax at official tax rate of 20%	677,847	1,041,667
Tax effect of permanent differences	(107,003)	(171,855)
Adjustment of current income tax for prior years	(85,000)	-
Share of profit in associates and joint ventures not taxable	(179,630)	(199,445)
	306,214	670,367

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2013 and 2012:

	At 1 January 2013	Recognised in profit and loss	Recognised in equity	At 31 December 2013
Property, plant and equipment	(902,454)	(133,425)	-	(1,035,879)
Trade accounts receivable	19,929	(28,097)	-	(8,168)
Inventory	61,641	12,227	-	73,868
Provisions	298,014	(189,637)	-	108,377
Taxes payable	15,594	5,670	-	21,264
Financial liability at fair value through profit or loss	40,874	(40,874)	-	-
Loans received	(21,353)	45,782	(24,429)	-
Loans given	6,362	850	-	7,212
Tax losses carried forward	55,435	496,129	-	551,564
Other liabilities	-	33,886	-	33,886
	(425,958)	202,511	(24,429)	(247,876)

	At 1 January 2012	Recognised in profit and loss	Recognised in equity	Disposal of subsidiary	At 31 December 2012
Property, plant and equipment	(877,283)	(25,171)	-	-	(902,454)
Trade accounts receivable	8,826	11,103	-	-	19,929
Inventory	72,849	(11,208)	-	-	61,641
Provisions	165,949	132,065	-	-	298,014
Taxes payable	18,270	(2,676)	-	-	15,594
Financial liability at fair value through profit or loss	36,646	4,228	-	-	40,874
Loans received	-	33,764	(55,117)	-	(21,353)
Loans given	-	6,362	-	-	6,362
Tax losses carried forward	64,375	(5,167)	-	(3,773)	55,435
	(510,368)	143,300	(55,117)	(3,773)	(425,958)

(in thousands of tenge)

37. DISPOSAL OF SUBSIDIARY

In August 2013, the Company sold to the third party its 65% ownership interest in dormant subsidiary Kuzet LLP at cost of 3,409 thousand tenge. The remaining 35% share in Kuzet LLP with carrying value of nil tenge is accounted for as other investments as at 31 December 2013. No gain or loss resulted from this transaction.

On 1 October 2012, the Company sold its 51% ownership interest in Kazakhstan engineering Distribution LLP.

	1 October 2012
Consideration received	
Consideration received in cash	8,507
Total consideration received	8,507
Asset and liabilities of disposed subsidiary	
Current assets:	
Cash and cash equivalents	71
Inventory	687
Accounts receivable	5,653
Prepaid income tax	287
Other current assets	7,329
Non-current assets:	
Property, plant and equipment	7,303
Intangible assets	76
Deferred tax assets	3,773
Current liabilities:	
Accounts payable	(14,874)
Taxes payable and other obligatory payments	(15,897)
Other current liabilities	(25,277)
Net liabilities disposed	(30,869)
Gain on disposal of a subsidiary	
Consideration received	8,507
Net liabilities disposed of	30,869
Investment in associate at loss of control	955
Gain on disposal	40,331

	9 months ended 1 October 2012
Profit/(loss) from discontinued operations	
Revenue	246,158
Other income	3,638
	249,796
Expenses	(269,559)
Loss before income tax	(19,763)
Income tax benefit	12
Net loss for the period	(19,751)
Gain on disposal	40,331
Profit for the year from discontinued operations	20,580

38. CONTINGENT LIABILITIES

Taxation and regulatory environment

Currently, there are a number of Kazakhstani laws relating to various taxes imposed by both national and regional authorities. Laws related to these taxes have not acted for a considerable time compared to more developed markets, so the application of their provisions are often not clear or is not developed. Accordingly, few precedents have been established in respect of tax matters, and there are different views on the legal interpretation of the laws. In accordance with legislation, tax authorities may impose substantial fines and penalties for late or incorrect filing of tax returns and/or tax payments. These factors create tax risks in Kazakhstan more significant than in countries with more developed tax systems.

Legal matters

The Group is the subject to claims and court trials from time to time, which individually or in aggregate did not affect the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's financial position or future operating results.

Environmental matters

Management of the Group believes that it is currently in compliance with all environmental laws and regulations existing in Kazakhstan and does not have liabilities arising from environmental matters. Therefore, no provision for potential losses has been made in these consolidated financial statements.

Insurance

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2013.

Market limitation

One of the Group's main operating activities is the development, production and sale of defence purposes equipment. The Group's activities are strategic for the Republic of Kazakhstan and require licensing and approval by the Government, which is why the market for the products of the Group is limited.

Capital commitments

As at 31 December 2013 and 2012, the Group has number of commitments for acquisition of property, plant and equipment of 334,533 thousand tenge and 700,371 thousand tenge, respectively.

39. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

Group's principal financial instruments comprise loans, cash and short-term deposits and accounts receivable and accounts payable. The main risk for the Group's financial instruments is credit risk. The Group also monitors the market risk and liquidity risk arising from all financial instruments.

Capital adequacy management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management of the Group monitors the return on (investment) capital, which the Group defines as net operating income divided by total equity, excluding non-controlling interests.

The Group manages its capital adequacy, to ensure that the Group will continue to work as a going concern while maximizing profits for the Shareholder through the optimization of the balance of debt and equity.

(in thousands of tenge)

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed equity requirements.

The Group's capital structure includes net debt (which is comprised of loans, debt securities issued, finance lease, including embedded derivative and debt component of preferred shares as disclosed in Notes 22, 23 and 24, after deducing cash and cash equivalents, restricted cash and short-term financial investments) and equity of the Group (which is comprised of charter capital, additional paid-in capital, retained earnings and non-controlling interests as disclosed in Notes 19, 20 and 21).

The gearing ratio at end of the reporting period was as follows.

	31 December 2013	31 December 2012
Borrowed funds	41,958,679	13,214,914
Cash and cash equivalents, short-term investments and restricted cash	(31,240,091)	(10,201,697)
Net debt	10,718,588	3,013,217
Equity	23,579,952	21,102,897
Net debt to equity ratio	45.46%	14.28%

Significant accounting policies

Information about significant accounting policies and methods adopted, including criteria for recognition, the basis for measurement and the basis on which income and expenses are recognized in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the consolidated financial statements.

Financial risk management objectives

Risk management is an important element of the Group's activity. The Company monitors and manages the financial risks relating to operations of the Group through internal risk reports which analyse the degree of exposure to risk and magnitude of risks. These risks include market risk (including currency risk, interest rate risk in respect of fair value and price risk), liquidity risk and interest rate risk on cash flows. The following is a description of the Group's risk management policies.

Interest rate risk

The risk associated with interest rates for the Group is a risk of changes in market interest rates, which may reduce the overall return on investment and increase the outflow of money for loans of the Group. This risk is not significant to the Group, since the interest bearing financial assets and liabilities include fixed interest rates.

Currency risk

The Group is exposed to currency risk on sales and purchases, and borrowings that are denominated in a currency other than the functional currency of Group entities, which is the Kazakhstani Tenge. The amounts of cash and cash equivalents, short-term investments, trade and other payables and debt securities issued of the Group denominated in foreign currencies, which are mainly U.S. dollars and Russian roubles, are presented in tenge in the consolidated financial statements. As a result of exchange rate of the tenge against the foreign currency gain or loss arises from exchange rate differences.

Group uses natural hedging, i.e. by balancing operating income and expenses, assets and liabilities. The Group seeks to maintain a ratio of currencies in the debt portfolio, which is close to the ratio of revenue in those currencies, which allows naturally hedge the risks associated with market changes in exchange rates.

(in thousands of tenge)

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group seeks to retain a zero net position of balances which are subject to risk by buying or selling foreign currencies at 'spot' rates when it is necessary to mitigate those short-term imbalances.

Group seeks to prevent the open currency positions, i.e. provides full coverage of foreign exchange risk.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Denominated in U.S. dollars		Denominated in Russian roubles	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Financial assets:				
Cash and cash equivalents	3,085,714	419	47,083	64,043
Restricted cash	82,489	87,062	-	-
Short-term investments	20,110,038	-	-	-
Interest-free loan to a related party	2,160,081	-	-	-
Trade and other receivables	-	-	50,044	10,609
Financial liabilities:				
Debt securities issued	(30,648,766)	-	-	-
Finance lease obligations	-	(625,110)	-	-
Trade accounts payable	(219,248)	(602,070)	(734,952)	(392,781)
	(5,429,692)	(1,139,699)	(637,825)	(318,129)

The following major weighted-average exchange rates applied during the year:

	2013	**2012**
U.S. dollars	152.14	149.11
Russian roubles	4.78	4.80

Sensitivity analysis

A 20% weakening of tenge as at 31 December 2013 and 10% as at 31 December 2012 against the following currencies would have increased equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	U.S. dollars		Russian roubles	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**
Profit or loss	(1,085,938)	(113,970)	(127,565)	(31,813)
Retained earnings	(1,085,938)	(113,970)	(127,565)	(31,813)

For the years ended 31 December 2013 and 2012, strengthening of tenge respectively for 20% and 10% against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is the sum of its trade receivables (Note 13) and other current assets (Note 16), less allowance for doubtful accounts reflected at the reporting date.

(in thousands of tenge)

Concentration of credit risk can arise when there are multiple amounts owed by a borrower or a group of borrowers with similar conditions for which there is reason to expect that changes in economic conditions or other circumstances may equally affect their ability to fulfil its obligations.

The maximum exposure to credit risk for trade receivables at the reporting date, and by geographic regions was as follows:

	31 December 2013	31 December 2012
Within the country	2,394,324	1,806,440
Outside the country	50,044	10,609
	2,444,368	1,817,049

The Group has a policy, providing continuous monitoring to ensure that transactions concluded with customers who have an adequate credit history and do not exceed credit limits. Credit risk is reduced, due to the fact that the group works with the majority of their customers on the basis of prepayment issued by a bank guarantee against the return of the advance payment.

The Group does not act as a guarantor for the obligations of third parties.

As at 31 December 2013 and 2012, distribution of trade receivables by ageing was as follows:

	31 December 2013	31 December 2012
Not overdue	2,036,888	1,762,336
Overdue by 3-6 months	99,998	54,713
Overdue by 6-12 months	307,482	-
Overdue by more than 12 months	110,688	45,542
	2,555,056	1,862,591

Market risk

Market risk is where the possible fluctuations in the value of a financial instrument due to changes in market prices. The Group manages market risk through periodic estimation of potential losses that may occur due to adverse changes in market conditions.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the liquidity risk of short-term, medium-and long-term financing in accordance with the requirements of the Shareholder.

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and available credit lines by continuously monitoring forecast and actual cash flows and comparing the maturity of financial assets and liabilities.

This note sets out details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

(in thousands of tenge)

Available credit funds

	31 December 2013	31 December 2012
Debt securities		
- placed	41,196,000	4,534,000
- unplaced	19,616,000	25,466,000
	60,812,000	30,000,000

The following tables reflect the contractual terms of the Group for its non-derivative financial liabilities. The table was compiled based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group may be required to pay. The table includes the cash flows as interest and principal payments.

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2013						
Non-interest bearing:						
Trade accounts payable	-	3,163,228	-	-	-	3,163,228
Other liabilities	-	240,155	336,560	95,837	212,775	885,327
Interest bearing:						
Debt securities issued	4.55%-5%	1,143,599	960,573	43,696,664	-	45,800,836
Finance lease	5%	61,997	114,052	772,318	260,944	1,209,311

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2012						
Non-interest bearing:						
Trade accounts payable	-	3,911,553	-	-	-	3,911,553
Other liabilities	-	302,877	363,109	25,974	205,072	897,032
Interest bearing:						
Loans	8%-16%	168,743	5,650,482	1,549,518	-	7,368,743
Debt securities issued	5%	113,350	113,350	4,987,400	-	5,214,100
Finance lease	7.5%-8%	33,056	377,515	1,461,767	406,124	2,278,462

(in thousands of tenge)

The following table reflects the expected maturity of non-derivative financial assets of the Group. The table was compiled based on the undiscounted contractual maturity of financial assets, including interest, to be received on these assets, unless the Group expects that cash flows will happen in another period.

	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
2013						
Interest bearing:						
Short-term deposits	4%-6.7%	386,929	-	-	-	386,929
Short-term financial investments	5%	21,041,887	-	-	-	21,041,887
Interest bearing loan to a related party	7.5%	555,857	-	-	-	555,857
Non-interest bearing:						
Cash and cash equivalents, less petty cash	-	10,366,445	-	-	-	10,366,445
Restricted cash	-	371,151	-	-	-	371,151
Trade accounts receivable	-	2,444,368	-	-	110,688	2,555,056
Other assets	-	2,459,622	52,557	-	75,388	2,587,567

	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
2012						
Interest bearing:						
Short-term deposits	3.8%-6%	934,906	-	-	-	934,906
Finance lease receivables	-	-	-	-	157,638	157,638
Non-interest bearing:						
Cash and cash equivalents, less petty cash	-	9,174,840	-	-	-	9,174,840
Restricted cash	-	87,062	-	-	-	87,062
Trade accounts receivable	-	1,817,049			45,542	1,862,591
Other assets	-	2,735,531	68,952	-	56,620	2,861,103

40. FAIR VALUE

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties on commercial terms, except in situations of forced implementation or implementation of the liquidation. Since most of the Group’s financial instruments are with no existing market mechanisms available to determine fair value, assumptions based on current economic conditions and specific risks inherent in the instrument should be used for fair value measurement.

The following methods and assumptions used by the Group to calculate the fair value of financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to short-term maturity of these financial instruments.

Short-term financial investments

Carrying value of bank deposits with a maturity of less than twelve months approximates fair value due to the relatively short maturity of these financial instruments.

Trade and other accounts receivable and payable

For trade and other accounts receivable and payable with a maturity of less than twelve months, the carrying amount approximates fair value due to the relatively short maturity of these financial instruments.

(in thousands of tenge)

Loans

The calculation in respect of bank loans was made by discounting the expected future cash flows on certain loan over the estimated repayment period using the market rates prevailing at the end of that year on loans with similar maturities and credit ratings parameters.

Investment property

Fair value measurement of investment property of Level 3 is carried out mainly using the comparative sales method. Market prices of comparable real estate located in close proximity are adjusted to reflect the difference in key data (such as the size of the estate). Key data used in this measurement principle is the price per square meter.

Fair value of assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The following table provides an analysis of financial and non-financial assets and liabilities that are measured subsequent to initial recognition at amortized cost, as well as investment properties are stated at cost.

	31 December 2013		31 December 2012	
	Fair value	Carrying value	Fair value	Carrying value
Assets				
Loans to a related party	2,692,992	2,692,992	2,168,190	2,168,190
Short-term financial investments	20,110,038	20,110,038	-	-
Investment property	399,590	35,674	610,723	45,196
Non-current assets classified as held-for-sale	8,708	8,708	1,832	1,832
	23,211,328	22,847,412	2,780,745	2,215,218
Liabilities				
Loans	-	-	6,682,757	6,682,757
Debt securities issued	41,518,158	40,739,624	4,361,841	4,361,841
Finance lease obligations	1,006,280	1,006,280	1,760,874	1,760,874
Financial liability at fair value through profit or loss	-	-	204,370	204,370
	42,524,438	41,745,904	13,009,842	13,009,842

Fair value hierarchy as at 31 December 2013

	Fair value hierarchy as at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans to a related party	-	2,692,992	-	2,692,992
Short-term financial investments	-	20,110,038	-	20,110,038
Non-financial assets				
Investment property	-	-	399,590	399,590
Non-current assets classified as held for sale	-	-	8,708	8,708
Financial liabilities				
Debt securities issued	41,518,158	-	-	41,518,158
Finance lease obligations	-	1,006,280	-	1,006,280

(in thousands of tenge)

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

For trade and other accounts receivable and payable, the fair value approximately approximates carrying value.

41. RELATED PARTY TRANSACTIONS

Related parties include associates and subsidiaries of the Company and the sole Shareholder of the Group, as well as branches and subsidiaries of the sole Shareholder of the Group, including state owned profit oriented companies.

Trade accounts receivable (Note 13)

	31 December 2013	31 December 2012
JSC NC KazMunaiGas	780,122	19,957
JSC NC Kazakhstan Temir Zholy	690,462	725,831
Ministries and agencies	279,018	-
Other	65,816	3,008
	1,815,418	748,796

Dividends receivable (Note 16)

	31 December 2013	31 December 2012
JSC ZIKSTO	45,962	71,592

Trade accounts payable (Note 26)

	31 December 2013	31 December 2012
JSC Aviarepair plant No.405	635,375	-
Elkam LLP	618,989	-
JSC KAMAZ-Engineering	171,121	-
JSC Samruk Energy	11,540	4,697
JSC NC KazMunaiGas	2,180	30
Eurocopter Kazakhstan engineering LLP	-	2,180,952
JSC NC Kazakhstan Temir Zholy	-	23,278
Other	28,460	2,257
	1,467,665	2,211,214

Advances given (Note 16)

	31 December 2013	31 December 2012
Kaz-ST Engineering Bastau LLP	44,800	-
JSC NC KazMunaiGas	16,162	12,568
JSC Samruk Energy	4,598	-
JSC Kazpost	3,633	-
Other	6,947	8,238
	76,140	20,806

(in thousands of tenge)

Loans given (Note 16)

	31 December 2013	31 December 2012
Kazakhstan ASELSAN engineering LLP	2,724,484	2,200,000
Accrued interest	8,427	-
Less fair value adjustment	(39,919)	(31,810)
	2,692,992	2,168,190

Cash and cash equivalents and restricted cash

	31 December 2013	31 December 2012
JSC BTA Bank (cash and cash equivalents)	412,011	6,098,287
JSC Temir Bank (cash and cash equivalents)	100,372	73,320
JSC Alliance Bank (cash and cash equivalents)	6,229	6,706
JSC BTA Bank (restricted cash)	82,730	80,947
	601,342	6,259,260

Loans received (Note 22)

	31 December 2013	31 December 2012
JSC BTA Bank	-	853,913
JSC SWF Samruk-Kazyna	-	5,017,084
Less fair value adjustment	-	(106,767)
	-	5,764,230

Advanced received (Notes 25 and 28)

	31 December 2013	31 December 2012
Ministries and agencies	1,276,298	1,548,057
JSC NC KazMunaiGas	204,256	855,605
JSC NC Kazakhstan Temir Zholy	16,009	7,602
Other	-	151
	1,496,563	2,411,415

Dividends payable to the Shareholder (Notes 19 and 28)

	31 December 2013	31 December 2012
Accrued for the period	678,393	693,205
Liability at reporting date	-	66,000

(in thousands of tenge)

Revenue (Note 29)

	2013	2012
Ministries and agencies	24,808,107	32,279,127
JSC NC KazMunaiGas	6,641,372	6,458,771
JSC NC Kazakhstan Temir Zholy	4,224,434	5,055,883
JSC KAMAZ-Engineering	54,254	23,739
CJSC Elkam-Neftemash	50,757	10,763
JSC NAC Kazatomprom	5,007	118,543
Other	11,047	7,829
	35,794,978	43,954,655

Expenditures on services rendered and goods acquired

	2013	2012
JSC Aviarepair plant No.405	2,558,234	573,601
Elkam LLP	1,940,593	-
JSC KAMAZ-Engineering	406,986	309,900
JSC NC Kazakhstan Temir Zholy	325,993	204,532
JSC NC KazMunaiGas	113,329	42,514
JSC Samruk Energy	95,783	53,278
Kaz-ST Engineering Bastau LLP	57,986	-
JSC BTA Bank	36,467	8,619
Samruk Kazyna-Contract LLP	26,584	6,576
JSC Kazakhtelecom	24,242	5,094
Elkam Munaymash LLP	17,265	14,295
Eurocopter Kazakhstan engineering LLP	-	13,478,486
Other	10,310	910
	5,613,772	14,358,415

Finance income (Note 34)

	2013	2012
JSC BTA Bank	7,637	7,033
Kazakhstan ASELSAN engineering LLP	147,884	41,181
	155,521	48,214

Finance costs (Note 35)

	2013	2012
JSC SWF Samruk-Kazyna (interests and amortization of discount)	273,506	322,701
JSC BTA Bank	26,272	55,845
JSC Samruk-Energy	10,515	-
JSC Temir Bank	-	81,542
JSC DBK Leasing	-	128,506
	310,293	588,594

Remuneration of key management personnel

For the years ended 31 December 2013 and 2012, compensation to key management personnel amounted to 337,203 thousand tenge and 225,051 thousand tenge, respectively.

42. EVENTS AFTER THE REPORTING DATE

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to U.S. dollar fell to KZT 184.55 per U.S. dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the U.S. dollar at KZT 182-188 per U.S. dollar. As at 5 March 2014, the KZT to U.S. dollar official exchange rate is 182.46 KZT per U.S. dollar. However, uncertainty exists with respect to dynamics of exchange rate and its effect and further actions of National Bank.

The Group management believes that it has taken appropriate measures to support the sustainability of the Group business under the current circumstances. However, a decrease in the KZT exchange rate could negatively affect the results and financial position of the Group in a manner not currently determinable.

On 17 February 2014, the Company's Board of Directors decided to approve the increase in the number of authorised common shares of the Company by 9,375,000 shares subject to approval by the Shareholder of the Company. The placement of shares is to be achieved by pre-emption purchase rights of the Shareholder of the Company. In case of non-purchase, the shares are to be sold to the Committee on State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.