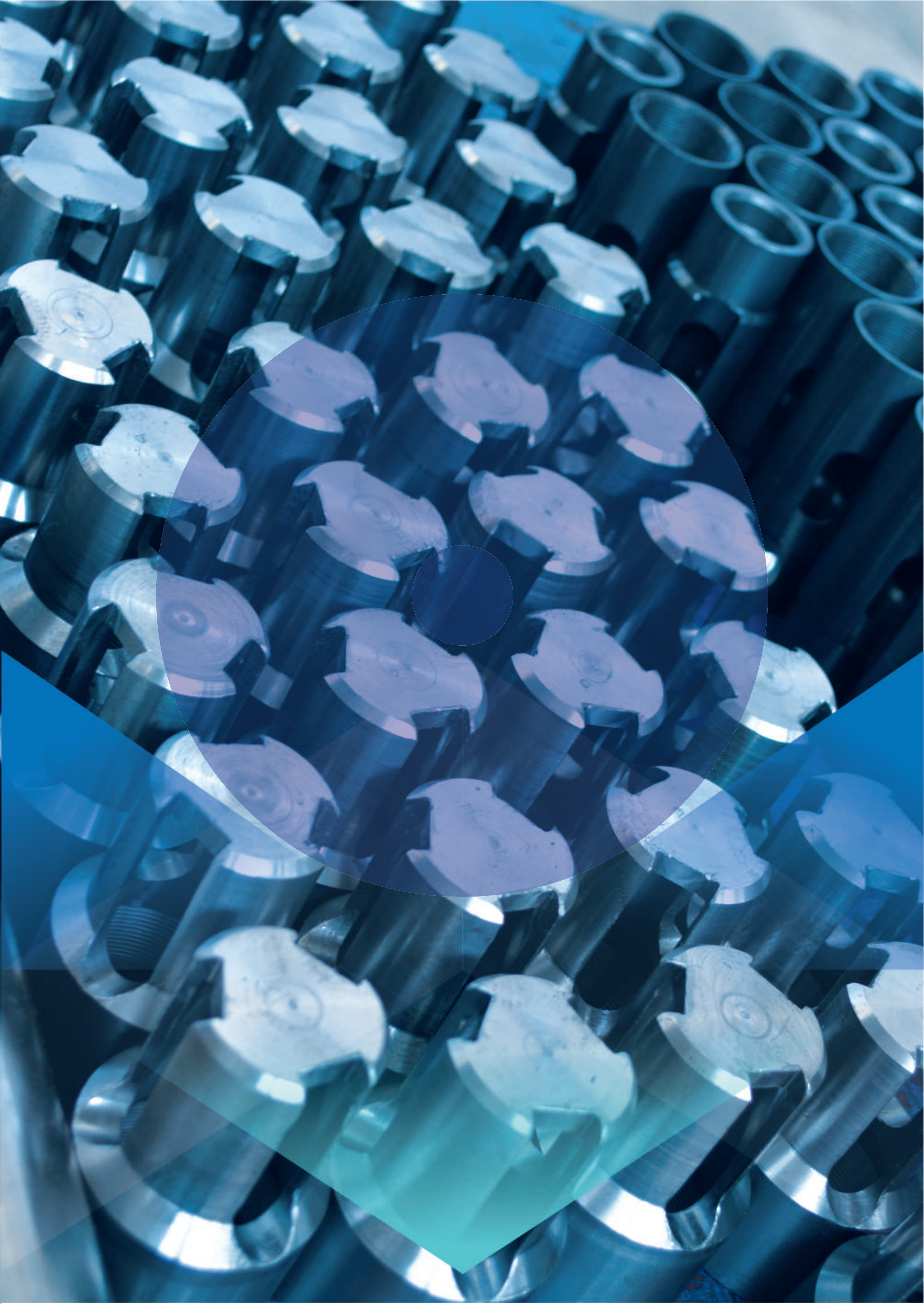
Kazakhstan Engineering

THE ANNUAL REPORT OF «NATIONAL COMPANY «KAZAKHSTAN ENGINEERING» JSC FOR 2013



INTRODUCTION

Message of the Chairman of Board of Directors

B.J. Abdraiym

Chairman of Management Board

«National Company «Kazakhstan Engineering» JSC (hereinafter referred to as «NC «Kazakhstan Engineering» or Company) was established to improve military- industrial complex management system of the Republic of Kazakhstan.

Sole shareholder of «National Company «Kazakhstan Engineering» JSC is «National Welfare Fund «Samruk-Kazyna» JSC (hereinafter referred to as «Samruk- Kazyna» JSC); 100% shares of «Samruk-Kazyna» JSC is owned by the Government of the Republic of Kazakhstan.

Since 2010 «National Company «Kazakhstan Engineering» JSC is beneficial ownership of the Ministry of Defense of the Republic of Kazakhstan. In accordance with the strategy «Kazakhstan-2050» Kazakhstan should strengthen its defense capabilities and military doctrine, participate in the various mechanisms of defensive containment.Currently the Company shall solve issues on timely and qualitative implementation of state defense order, assistance in technical and technological modernization of Armed Forces of the Republic of Kazakhstan, other forces and military formations, development of national engineering, implementation of state forced industrial and innovative development program draft for 2010–2014, assistance in increase of Kazakh content share in production of goods, works and services, training of qualified engineering and technical personnel able to work under modern conditions. The Company, its subsidiary and affiliated organization make significant contributions into social and economic modernization of the country. Along with the development of proper production, military enterprises make great contributions into the development of regions, giving workplaces and paying taxes into the local budget. The Company actively participates in the development of international military and technical co-operation. Currently, the Company has established relations with leading manufacturing companies from more than 20 countries. One of the principal non-financial factors of competitiveness increase of the Company is a quality of corporate management which assists in perception level increase of the Company by shareholders and investors, its market value and reduction of loan capital cost. The Company has recently made a significant work on improvement of corporate management practice. In 2013, an independent consulting firm LLP «PricewaterhouseCoopers» on the instructions of «Samruk-Kazyna» was conducted diagnostics of corporate governance of the Company. The rating of its compliance level with the requirements of the best world practice constituted 62,2%, while the planned figure was 55%. Compared to the previous year level of corporate governance of the Company increased by 18%, which showed the highest growth dynamics among the Group of companies «Samruk-Kazyna» JSC. The important stage of this activity in the current year is the Company strategy development for 2013–2020 in order to determine strategic objectives and tasks for decennial period in accordance with the message of the President of the Republic of Kazakhstan «Strategy «Kazakhstan – 2050: New Political Course of Successful State». This work is built on the principles of introduction of the best standards of corporate management, maximization of long-term cost of managed assets, increase of their competitiveness in world markets and with due regard to the priorities of state policy in military technical, industrially innovative, socially economic and other fields of activities of the Ministry of Defense of the Republic of Kazakhstan and «Samruk-Kazyna» JSC. Moreover, in 2013, the Company plans to join the Global Agreement initiated by UN and calling business circles to follow basic principles in the field of the observance of human rights, standards of labor relations and environmental protection, In a whole, activity of the Company has a positive dynamics and great opportunities for further growth.

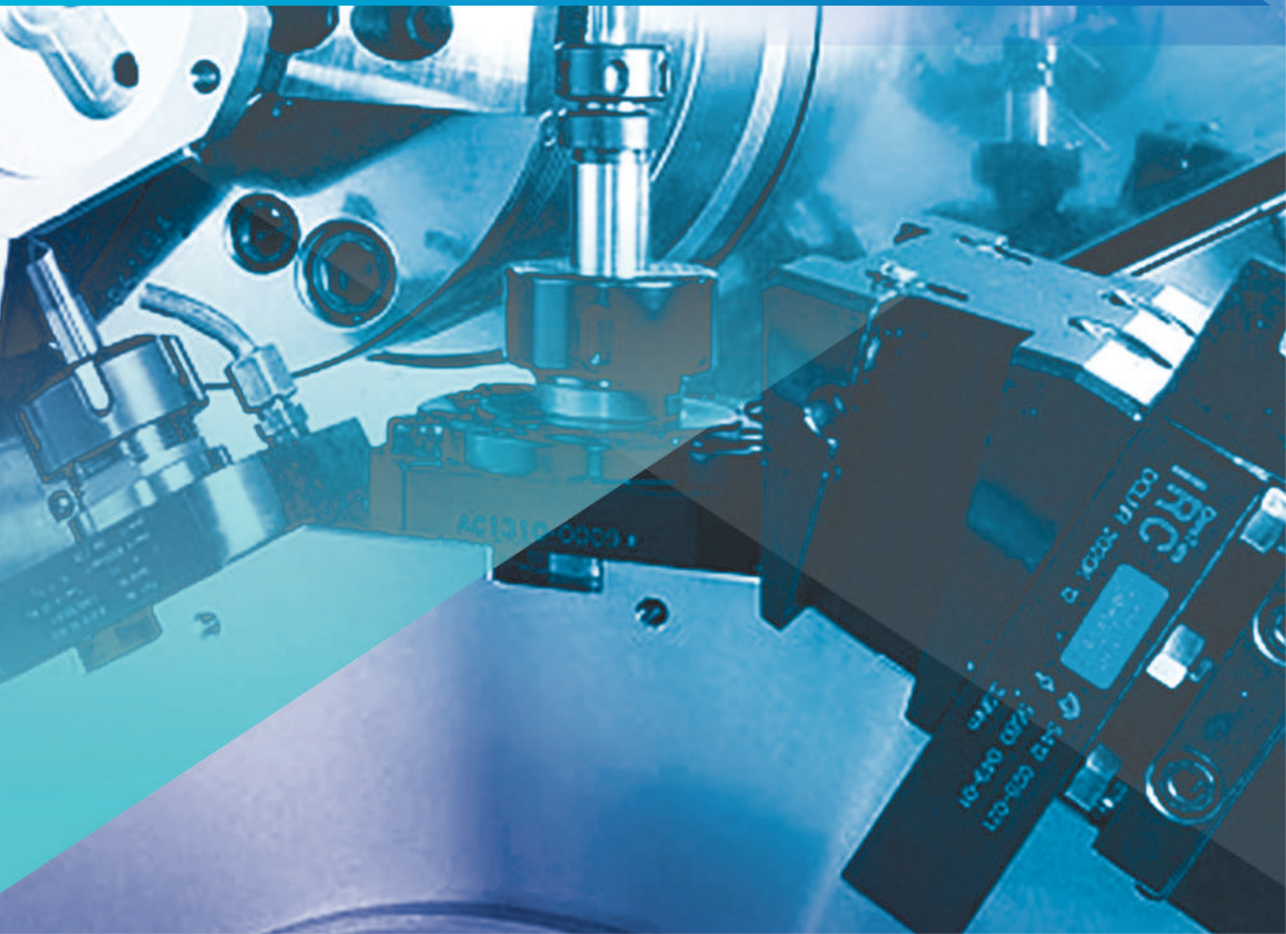
B.S. Smagulov

Chairman of Management Board

«National Company «Kazakhstan Engineering» JSC («NC «Kazakhstan Engineering» JSC) was established in 2003, by inclusion in its structure of 10 engineering companies, in pursuance of an order of the Head of the state Nursultan Nazarbayev. Now in group of the Company 15 affiliated and 12 dependent enterprises of machine-building and military-industrial branch. The company is included into group of companies «Samruk-Kazyna» since 2006 and is in trust management of the Ministry of Defence since June, 2010. The main activities of the group of Company are mechanical engineering, production and defense products service, engineering, output and rendering services in oil and gas, railway, agro-industrial and fuel-energy complexes. Increasing steadily the industrial, technical and financial capacity of the enterprises entering it, «National Company «Kazakhstan Engineering» JSC provides employment about 6 thousand people in regions of its presence. In 2013 the Company celebrated the 10-th anniversary. The correct strategic decisions and effective management allowed us to reach high operational performance in reporting year and to show excellent financial results. In 10 years, assets of the Company increased from 6 billion tenge to 74 billion tenge. In 2014 the increase in assets to 77 billion tenge is planned. The year 2013 was completed with the consolidated profit about 3,1 billion tenge. In the structure of the income the greatest share - 30% occupies specialized production and production of a dual purpose, 28% services (engineering), the oil and gas equipment – 16%, the railway equipment – 10%, other production, services and CG (consumer goods) – 16%. The Company reinvests the got profit in production development. The volume of investment in 2010 was at the level of 898 million tenge, in 2013 reached level of 3 552, 3 million tenge (with an accruing result of 16 146 million tenge). Also the output for 4 years from 25 billion tenge increased to 78 billion tenge for the reporting period. In 2012-2013 years the international rating agencies «Moody's», «Fitch Ratings» assigned the Company credit score and long-term investment ratings of the issuer at the «Ba2» and «BBB-» level. It should be noted that both agencies estimated the further forecast of the Company as «stable». High credit ratings gave the chance to carry out in 2012 a debut exit to internal market of the capital (KASE), way of loan for the sum of 14,3 billion tenge within issue of internal bonds with circulation period of 3 years at a rate of 7%. It allowed to refinance loans of OR of the Company in banks of the second level which were attracted under high interest rates to 16% earlier. That positively affected liquidity, growth of assets and considerably to cut expenses on our investment projects. Nowadays «Kazakhstan Engineering» as the corporate center of Group of company completely centralized attraction of loans and provides necessary financing of plants. On December 3, 2013 the Company placed eurobonds at the largest international stock markets of the world for the sum of 200 million US dollars, thus demand exceeded the offer more than twice.

In this context, it should be noted that the Company is the first among machine-building enterprises of Kazakhstan received the international ratings and access on the internal and external bonded markets of the capitals. Besides, the Company carries out active work on development of corporate governance. In November, 2013 the Board of Directors of the Company approved actualized «Strategy of development of the Company for 2013-2022». Achievements of «National Company «Kazakhstan Engineering» JSC are natural result of support from the part of the Ministry of Defence of the Republic of Kazakhstan, the Only shareholder of the Company – «National Welfare Fund «Samruk-Kazyna» JSC, and also fruitful work of working collectives at all levels. Efforts of the Company in 2013 and next years will be directed on formation of leader positions in branches of mechanical engineering which have to play a role of engines of the accelerated diversification of branch, and also have to be capable to make the worthy competition of the near and far abroad to the similar companies. The company working through Boards of Directors of our affiliated and dependent organizations, will realize such tasks as, increase of level of corporate governance, optimization of structure of assets, realization of effective dividend policy, strict control and monitoring of key indicators of activity of the affiliated and dependent organizations of the Company, debt management and risks, stimulation of innovative activity. Progress of fiscal year says that we have all necessary prerequisites for further steady growth and achievement of all without exception of the purposes set by us. Further we will continue to work effectively for the country and shareholder benefit, adhering in the activity of the highest production, environmental and social standards. At the end we would like to thank the corporate center of the Company and subsidiary and affiliated organizations for their professionalism, partners – for their mutually beneficial and fruitful co-operation. I wish you many new professional victories for the benefit of our country!

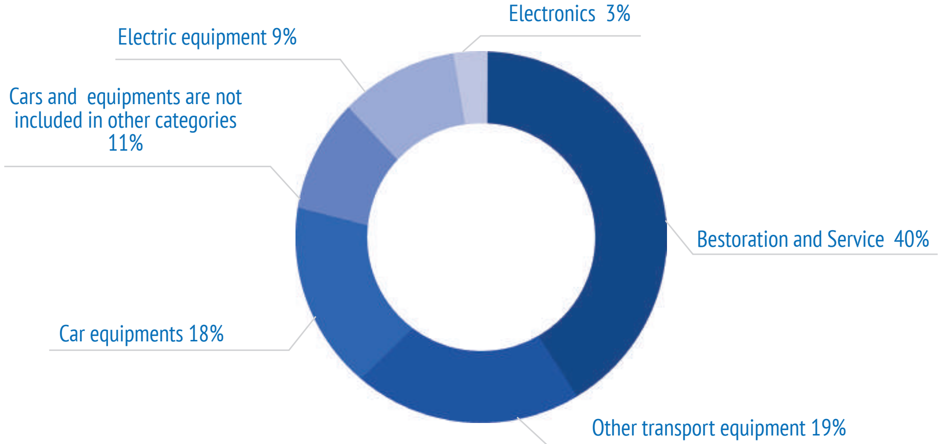
ANALYSIS
OF ENGINEERING SECTOR
OF KAZAKHSTAN



ANALYSIS OF ENGINEERING SECTOR OF KAZAKHSTAN *

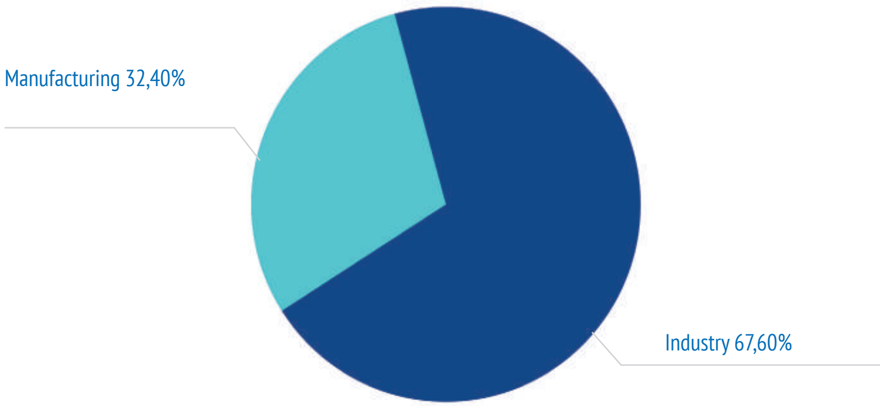
The machine-building complex is the leader among intersectoral complexes, providing with cars, devices all branches of a national economy, playing an important role in a production intensification, in labor productivity increase, acceleration of economic and social development of the country as a whole and its regions.

The share of mechanical engineering in the amount of industrial production in %
The share of mechanical engineering in the total amount of industrial production increases in dynamics since 2008.



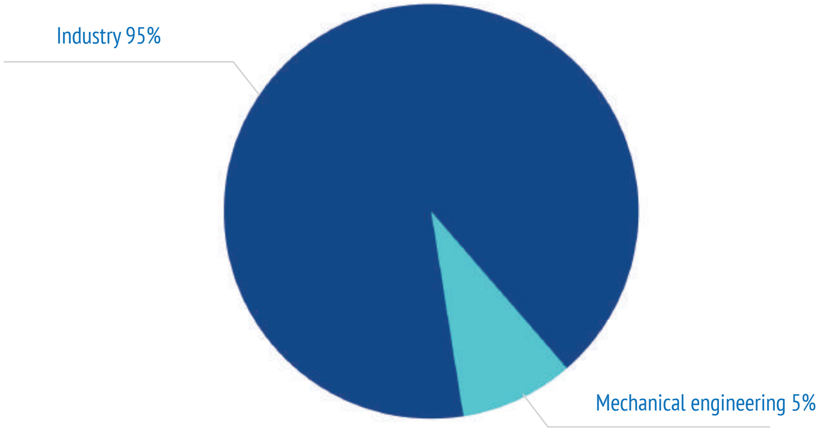
The mechanical engineering of Kazakhstan is presented by 6 main segments. In
branch structure repair and installation of cars and the equipment prevails – 40% of all release. Production of vehicles, including automotive industry, in total occupies 37% of the general release.

The share of machinery manufacturing
in industry, January-December, 2013

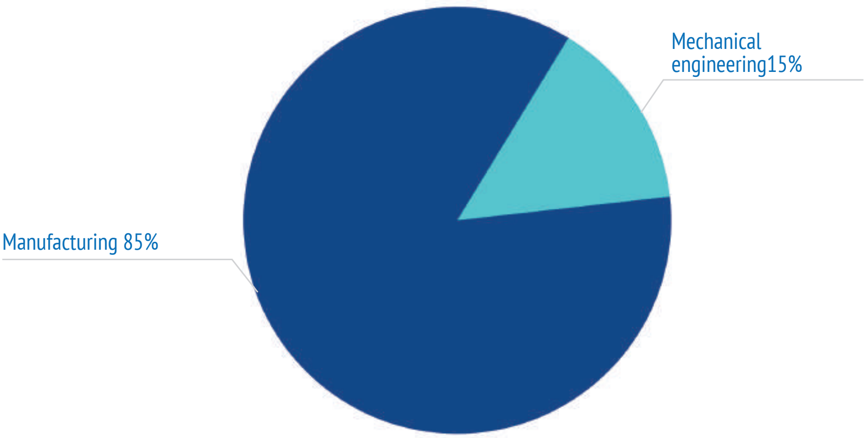


* The information in the given section is received from a site of joint-stock company «Kazakhstan Institute of progress of the industry» (www.kidi.kz)

The share of mechanical engineering in industry,
January-December. 2013.



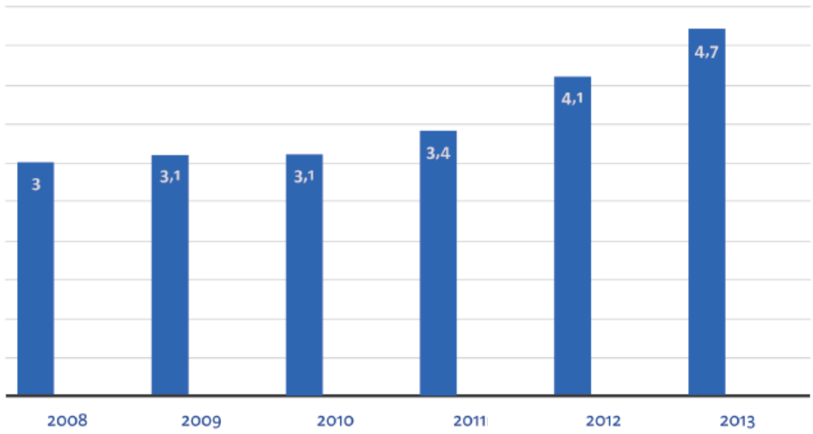
The share of machinery manufacturing industry,
January-December. 2013.



Specific weight of branch in a total amount of industrial production of the republic in January-December, 2013 made 4,7%, in manufacturing industry – 15%.

The mechanical engineering output from 2008 to 2013 increased from 301,4 to 853,9 billion tenge. In 2013 in comparison with 2008 the output grew to 2,8 times. The index of physical volume by the similar period of last year made 114,6% that means growth of real production.

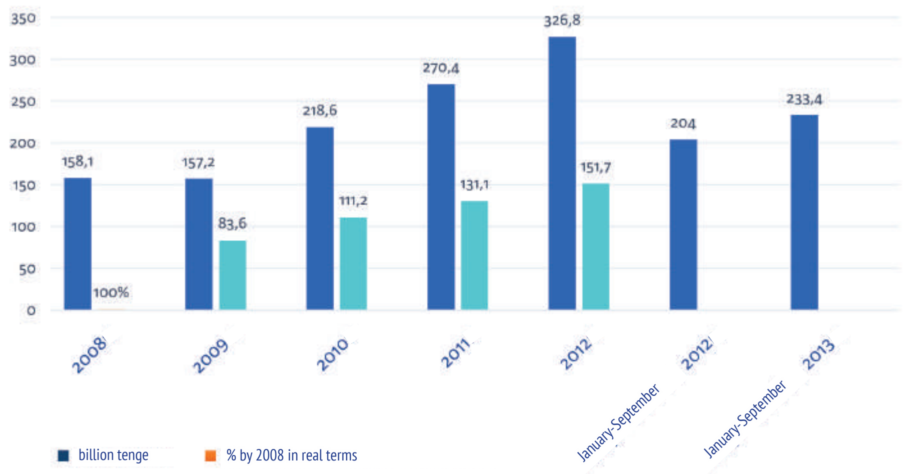
The share of mechanical engineering in the amount of industrial production in %



billion tenge % by 2004 in real terms

From 2008 to 2012 the volume of GAD increased from 158,1 to 326,8 billion tenge. (twice). Real growth of volume of GAD branch from 2008 to 2012 made 151,7%. In January-September, 2013 in comparison with the similar period of 2012 the volume of GAD increased from 204 to 233,4 billion tenge (to 13,4%). Real growth of volume of GAD in January-September, 2013 by the similar period of 2012 made 105,0%.

Growth in branch happened at the expense of increase in production of vehicles, trailers and semi-trailers.



billion tenge % by 2004 in real terms

- Significant growth in production is noted in production of cars to 11,4 times during 2008-2013. In January-December, 2013 37 471 pieces of cars were made that is twice more than the similar period of last year.

- In January-December, 2013 release of cars for transportation of ten or more people to 4,5 times increased to 722 pieces and special and specialized cars – twice till 280 pieces.

Significant increase is observed in production of other vehicles noticeable increase in production of freight cars in 2013 in comparison with 2008 – to 10,9 times is observed.

- In 2013 production of diesel locomotives increased to 2,5 times in comparison with 2008 to 75 pieces.

- These two segments, whose cumulative influence is estimated at 37%, and also a segment of services promoted growth of IPV of all branch.

-In agricultural mechanical engineering is noticed significant growth in production of tractors in 2013 in comparison with 2008 to 5,6 times to 1362 pieces.

- Stable growth is noticed in production of the oil-field equipment to 2,8 times in 2013 in comparison with 2008.

-In 2013 in comparison with 2008 production of electric transformers increased twice, in January-December, 2013 by the similar period of 2012 the increase to 1,2 times is observed.

The number of workers in mechanical engineering

Recession of number of the personnel in mechanical engineering in 2003-2004, and also in 2009-2010 is observed. The main trend of number of the personnel of mechanical engineering in dynamics from 2000 to 2013 doesn't change and number makes more than 87,5 thousand people occupied in mechanical engineering.

Labor productivity in mechanical engineering from 2008 to 2013 increased with 11,1 to 24,3 thousand dollars of USA/people, real growth – to 2,2 times

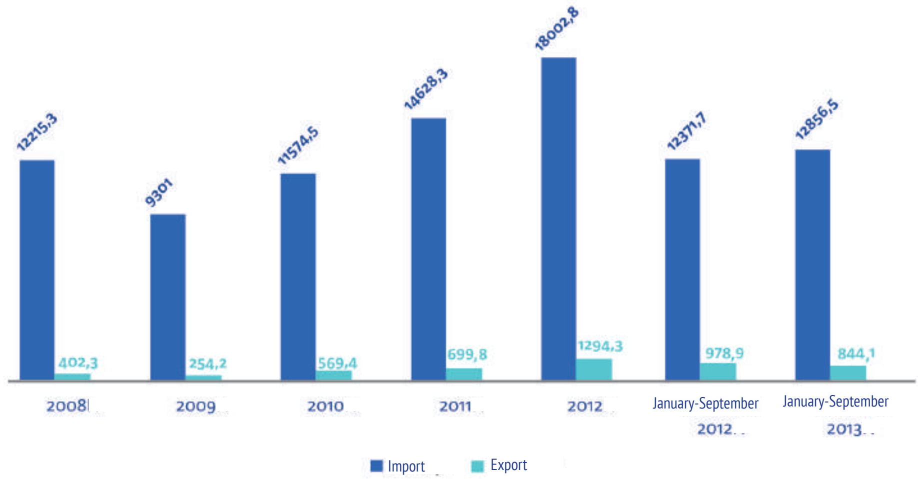
One of the major factors influencing growth of productivity in mechanical engineering is a start of new productions. From 2010 till 2013 58 projects in mechanical engineering on total investment of 196 630 million tenge were started.

Export and import of machine-building production

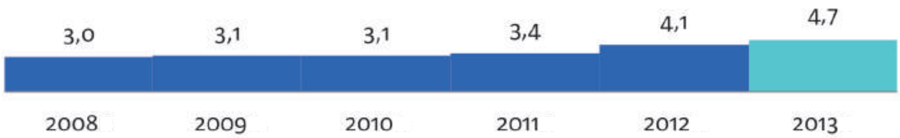
Export of machine-building production has rather positive dynamics with essential single falling in 2009, more than to 3 times. In 2012 indicators of export returned to pre-crisis level. Export for 2012 made 1,3 billion US dollars that is 1,8 times more, than in 2011. In comparison with 2008 there was an increase in export to 3 times. For January-September, 2013 export made 844 million USD.

Import of machine-building production tends to increase, with intermediate falling in 2009 owing to all-system crisis. Import for 2012 made 18 billion US dollars that is 23% more, than in 2011. In comparison with 2008, import increased by 1,5 times. The volume of import of machine-building production for January-October, 2013 made 12,9 billion USD.

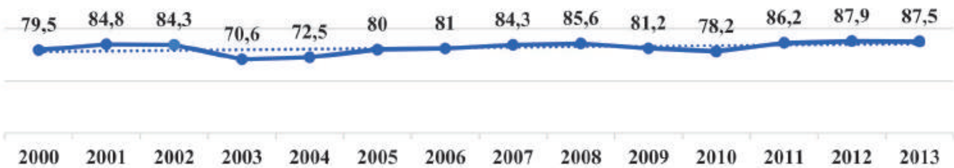
Export and import of production of mechanical engineering, mln. dollars of the USA



The share of mechanical engineering in the amount of industrial production in %



Number of personnel, thousand pers.



«NATIONAL COMPANY «KAZAKHSTAN ENGINEERING» JSC IN FIGURES AND FACTS IN 2013

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«National Company «Kazakhstan Engineering» JSC («NC «Kazakhstan Engineering» JSC or Company) following the results of 2013 reached the main objectives set by the Sole Shareholder. Today the Company has a high potential for development of machine-building branch of Kazakhstan. New investment projects are realized. The company masters various subsectors of mechanical engineering and seeks for their realization together with the international leaders. Positive dynamics of operational and financial performance of activity of the Company testify to it.

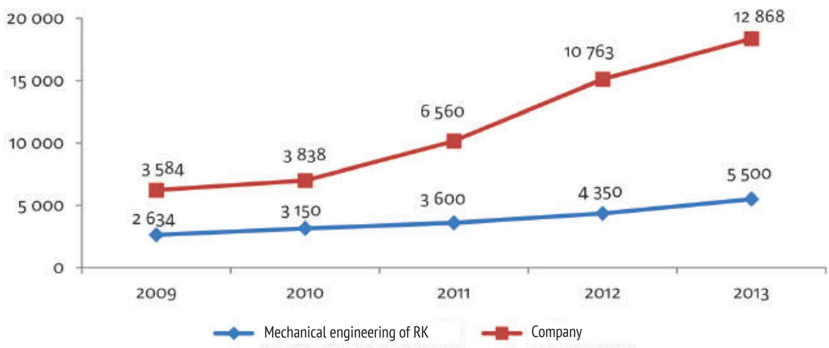
Operational and financial results of activity

Results	2009	2010	2011	2012	2013	changing from 2013 by 2009
Output ingroup (billion tenge)	18,5	19,1	33,5	60,6	78,5	4,3 times
Assets (billion tenge)	17,6	24,7	27,4	45,9	74,1	4,2 times
Financial result (million tenge)*	-244	378,8	2264	4558	3083	8,14 times to 2010
Expenses on progress (investments) (million tenge)	385	897	2044	9651	3552	9,2 times
Labor efficiency (thousand tenge/ person)	3584	3838	6560	10763	12868	3,6 times
Average monthly salary (thousand tenge)	55,4	70,5	86,9	135,5	114,2	2,1 times

** Financial result = the net income before the minority interest deduction*

Labor efficiency reached 12,9 million tenge on the worker (20% higher than an indicator of 2012). The average branch value of productivity is exceeded to 2,4 times (5,550 million tenge/person according to the Program of development of mechanical engineering of RK for 2010-2014years).

Labor efficiency, thousand tenge/people

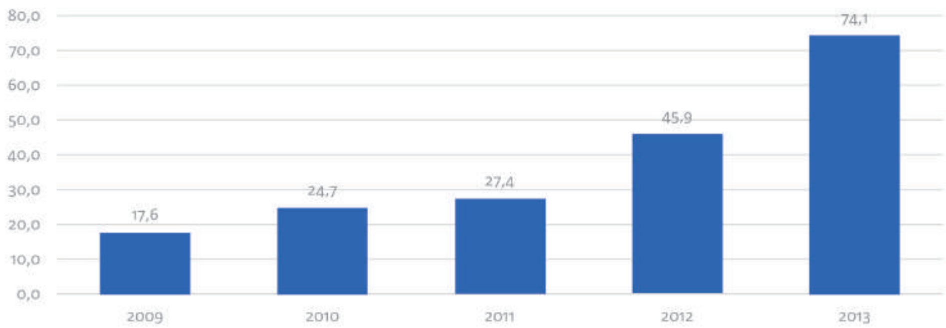


The consolidated assets for the end of 2013 made 74,1 billion tenge. Growth of assets in comparison with 2012 made 1,6 times that is connected with increase in the volumes of investment, costs of fixed assets, IR (inventory reserve), implementation of new investment projects, as well as attraction credit means by accommodation of Eurobonds in the international markets of the capital for the sum 200 million US dollar (from which as of 31December, 2013. 20, 11 billion tenge are placed on the short-term deposit in «Tsesna Bank» JST).

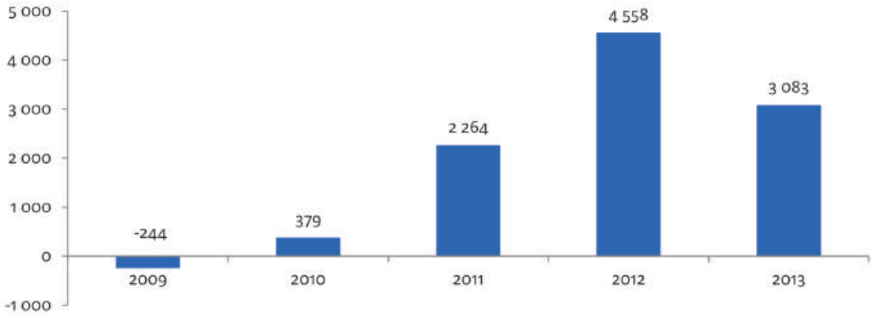
The net consolidated profit made 3,1 billion tenge (119% to the plan, 68% by 2012, growth of 814% by 2010). The increase in profit and overfulfillment of a planned indicator is connected with the conclusion of highly profitable contracts, decrease in prime cost, reduction of other expenses.

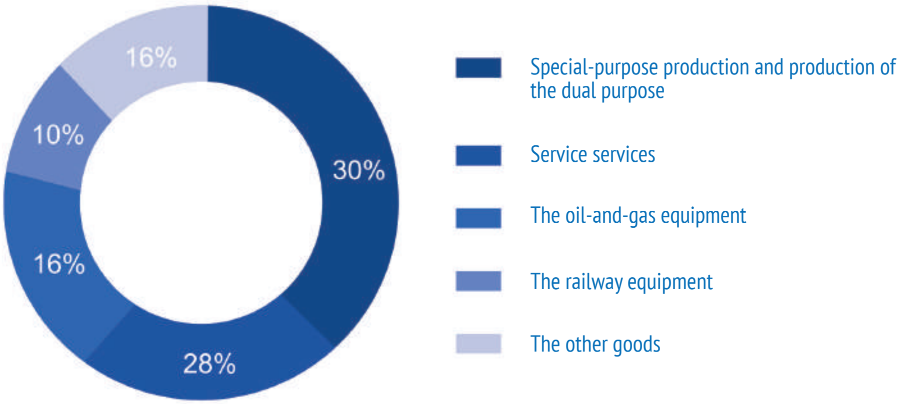
At the same time, decrease to the fact of 2012 is caused by decrease in the consolidated volume of realization on 14 % to the fact of 2012 in connection with reduction of orders on special production on 52 % in comparison with parameters of 2012.

«NC «Kazakhstan Engineering» JSC
Actives (billion tenge)



Financial Result (one thousand tenge)





INDUSTRIAL INDEX

The output of special production and production of a dual purpose for 2013 on group of the Company (on a method of individual share) made 35,5 billion tenge at the plan of 34,3 billion tenge (103% to the plan) Increase by 2012 - for 23%. The output of products of civil appointment made 32,5 billion tenge at the plan of 32,1 billion tenge that made 101% to the plan (growth by 47% by 2012). The increase in outputs is connected with growth of volumes of contracts within SDO (state defense order), and also contracts with the national companies, large organizations of RK and increase in export.

The volume of realization of services made 12,5 billion tenge that is 63% higher than a planned indicator for 2013, and is 28% higher than in 2012.

The volume of realization of production and services in the Company reached 44,7 billion tenge at the plan of 50,3 billion tenge, not achievement of a planned indicator made 11% (decrease for 14% by 2012). Decrease in volume of realization is connected with decrease in realization of special production for 52% in comparison with indicators of 2012.

Profitability of activity achieved 6.9% (plant – 5.1%). In 2011 this indicator was 9.3%. decrease of profitability is associated with decrease of net consolidated profits.

Return on equity constitutes 17,2% (plan – 9,5%) that higher than planned target by81%.

Overachievement of these targets is associated with growth of actual net consolidated profits for 2013.

ROACE constitutes 11,6% (plan – 8.6%) that higher than planned target by 35% and 35 % lower than indicator in 2012.

EBITDA margin constitutes 9.1% (plan – 8,8%), that higher than planned target by 4% and 1.6% higher than planned target in 2012

Share of export products in the volume of sales in 2013 constituted 8% of the total volume of sales that 14% higher that the indicator of the last year. Execution of this indicator in 2013 was 87%.

Rate of Kazakh content in the procurement of goods, works and services constituted 17% in average in 2013 that is at the level of planned target 3 % lower than (plan for 2013 -20%).

KEY EVENTS AND ACHIEVEMENTS IN 2013 WITHIN IMPLEMENTATION OF THE DEVELOPMENT PLAN AND DEVELOPMENT STRATEGY OF THE COMPANY

1. In 2013 Eurobonds under 4,55 % annual in the international markets of the capital for the sum 200 million US dollar are placed, at demand from investors more than in 2 times exceeding volume of release. Significant interest was shown with the largest transnational investment and bank colleges, such as PNB Paribas, Pioneer Investments, Nomura, UBS.

2. The Company implements new technologies to the production processes and modernizes assets within the implementation of its long-term strategy. The Company established large joint ventures companies with international TNC «Thales» (France), «Eurocopter» (France, Germany), «Aselsan» (Turkey), «Indra» (Spain).

3. In December 2013 with participation of the President of the Republic of Kazakhstan was opened a factory which took place in the city of Astana on manufacture of electron-optical devices on territories of Republic Kazakhstan with Turkish company Aselsan

4 . «Fitch Ratings» assigned to the Company long-term scores of the issuer («RDE») in foreign and national currency at the BBB-and BBB level respectively (the forecast - stable).

5. The independent consulting firm «PricewaterhouseCoopers» LTD on the instructions of Fund carried out diagnostics of corporate governance of the Company.

The rating of compliance of level of corporate governance of the Company to requirements to the best world practice made 62,2% while the planned indicator made 55%.In comparison with last year level of corporate governance of the Company grew to 18% that showed the highest dynamics of growth among the Companies of group of «Samruk-Kazyna» JSC.

ABOUT COMPANY

PRINCIPAL ACTIVITIES, OBJECTIVES AND TASKS

Nowadays the world economy shows uncertainty signs that in many respects increases risks of considerable changes of an environment in the separate markets. Such situation most negatively influences to monogrocery economies which also the Republic of Kazakhstan treats. For decrease in the long term of dependence on the world prices for energy carriers national economy has to be significantly diversified. It will allow to provide it stability and give the chance for adaptation to new economic conditions regardless of that with what they will be. The Strategy «Kazakhstan-2050» is accepted at the state level. Strengthening of positions in branch of mechanical engineering is called one of priorities of long-term strategy of development of the country.

The company, being the largest subject in branch, has to become the engine of its development, having created favorable institutional conditions for business development in the most demanded sectors of mechanical engineering at the expense of a transfer of technologies, introduction of the best the practician of management and an entry into the new geographical markets. Actually, the company has to not only create joint-stock cost and maximize profitability of operations, but also attract partners, develop intra-branch and intersectoral cooperation, provide development of anticipatory technologies which will allow all branch of mechanical engineering of the Republic of Kazakhstan to compete not only on local, but also on regional, and in the long term – in the global market.

Thus, mission of the Company consists in realization of strategic interests of the state in mechanical engineering development by effective management of assets and increase in long-term cost of the organizations entering into group of the Company.

By 2022 the Company has to turn into the effective machine-building holding uniting a number of the industrial enterprises, making machine-building production for all branches of economy, including the defense industry complex (DIC), the leading engineering company in the market of engineering services of Kazakhstan, and also into the center of competence of area of high technologies and the conventional expert in sectors of the specialization.

For achievement of a target state and in pursuance of mission the Company sets as the main strategic objective occurrence in TOP-50 the most effective machine-building corporations on an indicator «Labour productivity».

Taking into account the current situation in world and national economy, and also taking into account prospects of development of integration processes, the competition even in domestic market increases. In this regard, it is crucial for achievement of a strategic objective of the Company equally to develop the following strategic directions:

1. Formation of effective and competitive Holding;
2. Assistance in development of branch of mechanical engineering for diversification and modernization of national economy;
3. Providing a sustainable development of the Company.

ASSET STRUCTURE OF THE COMPANY

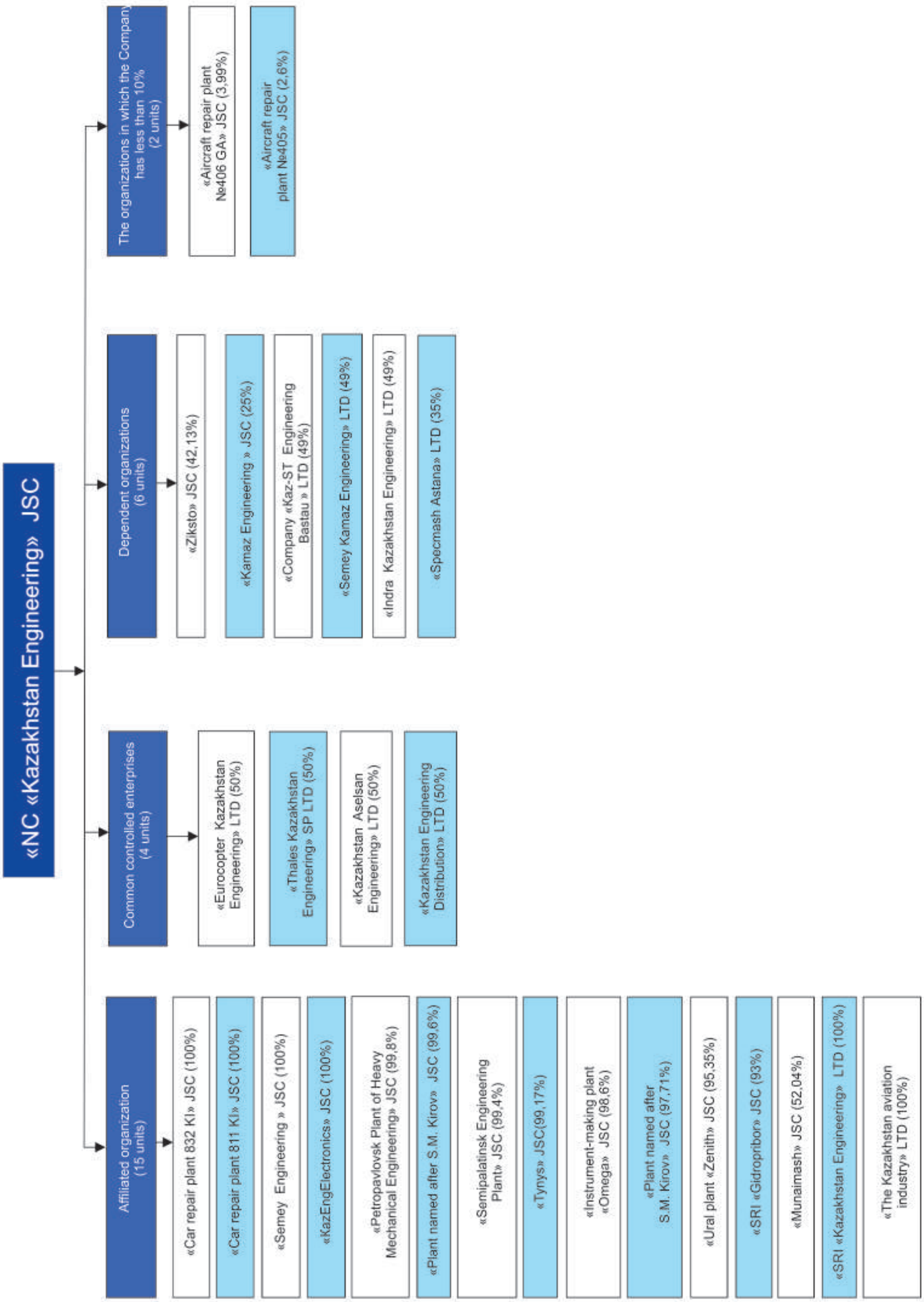
Company group includes 27 enterprises.

Enterprises of the Company release products and deliver services for oil-and-gas, railway, energetic, military- industrial complex and h the field of radio electronics, agriculture and release of consumer goods(RCG).

Due to shareholding transfer to discretionary management by the Ministry of Defense of the Republic of Kazakhstan, the Company actually became the principal executive of state defense order that permitted to fill capacities of military enterprises of the Company group.

№	Enterprise name	Field of activity
1.	«Petropavlovsk Plant of Heavy Mechanical Engineering» JSC	Production of the equipment for drilling and major well workover, the equipment for oil refineries and petrochemical productions, the traveling tool and means of mechanization for repair and service of tracks.
2.	Ural plant «Zenit» JSC	Boats and ships; design and production of steel constructions, spare parts, etc.for an oil and gas complex.
3.	«Munaimash» JSC	Borehole rod pumps for oil and gas sector; consumer goods.
4.	«Plant named after S.M. Kirov» JSC	Navigation systems, radio stations, control panels for a railway complex; control units and the automated devices for an oil and gas complex, etc.
5.	«KazEngElectronics» JSC	Modernization and capital repairs of arms, production of a dual purpose, production of modern means of communication and radio electronics products, assembly production of the computer equipment.
6.	«Instrument-making plant «Omega» JSC	Installations for water purification, production for the railroad; digital automatic telephone exchanges and components, telephone sets; consumer goods and others.
7.	Scientific Research Institute «Gidropribor» JSC	Design and research work, as well as production of sea and river boats, ships, vessels and other floating facilities and underwater vehicles, ground and airial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects.
8.	«Semipalatinsk Engineering Plant» JSC	Caterpillar conveyors - tractors on the GT-T basic chassis, its modification and spare parts to it; production for a railway complex.
9.	Machine Building Plant named after S.M. Kirov JSC	The sea underwater weapon and products of hydraulics and burning automatic equipment for the sea ships; pneumopunchers for a mining industry; spare parts for a railway complex.
10.	«Car repair plant 832 KI» JSC	Carrying out repair work of automotive vehicles.
11.	«Aircraft repair plant №405» JSC	Maintenance and repair of planes and helicopters.
12.	«Specmash Astana» LLP	Development and enhancement of mutually advantageous communications in the sphere trade - economic, scientifically - technical and other cooperation with domestic and foreign partners. Marketing activity. Rendering information services.

№	Enterprise name	Field of activity
13.	«The Kazakhstan aviation industry» LLP	Production and service of the aircraft equipment.
14.	«Thales Kazakhstan Engineering» JV	Development, production and sale of the electronic equipment, systems and/or the software and providing the services connected with it; production, sale and maintenance of radio and communication equipment for the defensive market.
15.	«Semey Engineering» JSC	Repair of arms and military equipment; capital repairs of engines of various modification.
16.	«Tynys» JSC	Aviation products, fire extinguishing means, the medical equipment, production of polyethylene pipes, security measure for power structures.
17.	«Car repair plant 811» JSC	Repair of cargo automotive and caterpillar vehicles, engines and units, and also their modernization and re-equipment of automotive vehicles.
18.	«ZIKSTO» JSC	Repair of freight railway cars, repair of wheel couples with change of elements.
19.	«Kamaz Engineering» JSC	Production and realization of buses, cars, special equipment and spare parts to them.
20.	«Kazakhstan Engineering Distribution» LLP	Realization of products of the enterprises KI, attraction of investments, participation in state programs and tenders for supply of equipment.
21.	«Kazakhstan Aselsan Engineering» LLP	Production of electron-optical devices.
22.	«Company «Kaz-ST Engineering Bastau» LLP	Investment holding activity and rendering defensive, engineering services (joint venture with «SingaporeTechnologiesEngineering»).
23.	«Aircraft repair plant №406 GA» JSC	Maintenance and repair of planes and helicopters.
24.	«SRI «Kazakhstan Engineering» LLP	Development and development of new types of special production for the enterprises of the defense industry complex (DIC), with application of automated control systems of arms.
25.	«Eurocopter Kazakhstan Engineering» LLP	Production and service of helicopters.
26.	«Indra Kazakhstan Engineering» LLP	Production and maintenance of radio-electronic systems of defensive value.
27.	«Semey Kamaz Engineering» LLP	Assembly of automotive vehicles


«NC «Kazakhstan Engineering» JSC
Affiliated organization (15 units)
«Car repair plant 832 KI» JSC (100%)
«Car repair plant 811 KI» JSC (100%)
«Semey Engineering » JSC (100%)
«KazEngElectronics» JSC (100%)
«Petropavlovsk Plant of Heavy Mechanical Engineering» JSC (99,8%)
«Plant named after S.M. Kirov» JSC (99,6%)
«Semipalatinsk Engineering Plant» JSC (99,4%)
«Tynys» JSC(99,17%)
«Instrument-making plant «Omega» JSC (98,6%)
«Plant named after S.M. Kirov» JSC (97,71%)
«Ural plant «Zenith» JSC (95,35%)
«SRI «Gidropribor» JSC (93%)
«Munaimash» JSC (52,04%)
«SRI «Kazakhstan Engineering» LTD (100%)
«The Kazakhstan aviation industry» LTD (100%)
Common controlled enterprises (4 units)
«Eurocopter Kazakhstan Engineering» LTD (50%)
« Thales Kazakhstan Engineering» SP LTD (50%)
«Kazakhstan Aselsan Engineering» LTD (50%)
«Kazakhstan Engineering Distribution» LTD (50%)
Dependent organizations (6 units)
«Zikstо» JSC (42,13%)
«Kamaz Engineering » JSC (25%)
«Company «Kaz-ST Engineering Bastau » LTD (49%)
«Semey Kamaz Engineering» LTD (49%)
«Indra Kazakhstan Engineering» LTD (49%)
«Specmash Astana» LTD (35%)
The organizations in which the Company has less than 10% (2 units)
«Aircraft repair plant №406 GA» JSC (3,99%)
«Aircraft repair plant №405» JSC (2,6%)

INVESTMENT ACTIVITY

IN 2013 THE COMPANY REALIZED THE FOLLOWING INVESTMENT PROJECTS:

1) Creation of production on modernization, service and repair of military armored machinery on the basis of «Semey Engineering» JSC
2) Development of foundry production on gas models in «Tynys» JSC
3) Production of nonwoven fabrics (geotextiles) in «Tynys» JSC
4) Production of bullet-proof vests in «Tynys» JSC

Meanwhile the following investment projects are realizing by the Company:
1) Production of electron-optical devices («Kazakhstan Aselsan Engineering» LTD)
2) Creation of production on modernization, service and repair of military armored machinery on the basis of «Semey Engineering» JSC (the 3-rd stage)
3) Production of systems of REF (radio-electronic fight) and RS (radar station) («Indra Kazakhstan Engineering»)
4) Creation of the Aerotechnical center in Astana (Kazakhstan Airindustrya LTD)
5) Creation of production on producing the power boiler equipment on «PPHME» JSC
6) Modernization of «Petropavlovsk Plant of Heavy Mechanical Engineering» JSC
7) Modernization of production of «Plant named after S.M. Kirov» JSC
8) The organization of production of military and civil equipment in the RK
9) The integrated system of safety of the RK
10) Production, assembly and service of the helicopters ES-645

It should be noted that establishment of joint ventures with foreign partners is fulfilled on a parity bases of 50% for 50%.

Some investment projects are strategic projects assigned to the development of military-industrial sector of the Republic of Kazakhstan in accordance with armed forces, other forces and military formation technological modernization program of the Republic of Kazakhstan and weapon and military equipment production development program for 2011–2015.Investments to the investment projects are fulfilled by the Kazakhstan part at the expense of assets of the Republican Budget, Fund and own at the expense of the bonded program. Financing of joint of investment projects is fulfilled in accordance with share participation of the parties.

Financial support. Information on dividends.

Information on the guarantees received from the state and any obligations to the state, assumed by the Company, reveal with compliance with IFRS (International Financial Reporting Standard). According to the Decision of Board of «Samruk-Kazyna» JSC №32/13 of June 17, 2013 the annual financial statements of the Company for 2012, and the amount of payment of dividends are approved following the results of activity for 2012 of 678393 thousand tenge.

CORPORATE MANAGEMENT

CORPORATE MANAGEMENT
CORPORATE MANAGEMENT SYSTEM DESCRIPTION

Corporate management of the Company means combating of processes assuring management and control of the Company's activity, including relations between the Sole Shareholder, discretionary manager resented by the Ministry of Defense of the Republic of Kazakhstan, Board of Directors, Management Board and interested persons on behalf of the Sole Shareholder, Company and its subsidiary and affiliated companies.

Rights of the Sole Shareholder and property right disposal procedures are indicated in the articles of association of the Company.

The Sole Shareholder of the Company positively affects the corporate management practice because promotes development and acceptance of principal internal statutory documents the field of corporate management, renders methodological assistance, promotes organization of effective processes of corporate management.

Company interaction with Fund is carried out according to the Concept of distribution of powers of bodies of the joint-stock companies which all voting shares are in Fund property.

The company considers development of corporate management as means of increase of efficiency of activity of the Company, its cost, reputation, decrease in expenses for attraction of the capital.

Improvement of processes of corporate management in group of the Company is carried out by improvement of the following components:

Structure

1. Structure of corporate management
2. General commitment to the principles of corporate management
3. Rights of financial interested parties
4. Conflict of interests
5. Differentiation of competences

Processes

1. Efficiency of board of Directors
2. Corporate social responsibility
3. Remuneration and continuity
4. Risk management
5. Planning and monitoring

Transparency

1 . Information policy
2 . Disclosure of financial information
3 . Disclosure of non-financial information
4 . Auditor process
5 . Internal audit

PRINCIPLES AND REPORT ON CORPORATE MANAGEMENT

Basic principles of corporate management of the Company are:

- principle of protection of rights and interests of the Sole Shareholder;
- principle of the effective management of the Company by the Sole Shareholder, Board of Directors and Manahement Board;
- principles of transparency, objectivity and timeliness of information divulgence on the Company activity;
- principles of legality and ethics;
- principles of the effective dividend policy;
- principle of effective HR policy;
- regulation policy of corporate conflicts and conflicts of interests;
- principle of responsibility.

The company ensures the effective participation of the Sole Shareholder and discretionary manager such as appointment and elections of the Board of Directors.

The company follows the Code of Corporate Management for systematization of corporate management, ensuring of activity transparency and confirmation of the Company readiness to follow standards of good corporate management by means of:

- responsible, fair and effective management;
- effective work of Board of Directors and Management Board acting interests of the Sole Shareholder, Discretionary manager and the Company;
- proper disclosure of information and transparency as well as effective risks management system and internal control system.

In 2013 the company PricewaterhouseCoopers LTD (further – independent consultants) conducted a diagnostics of corporate management of the Company by order of the Fund.

Diagnostics was made accordance with Method of corporate management diagnostics in the companies of the group of Fund approved by the Management Board of the Fund.

Rating of compliance of corporate management level of the Company with the requirements of the best world practice is 62,2% while the planned indicator made 55%.

In comparison with the last year level of corporate management of the Company grew to 18% that showed the highest dynamics of growth among the Companies of group «Samruk Kazyna».

LIST AND BIOGRAPHY OF THE MEMBERS OF THE BOARD OF DIRECTORS

ABDRAYM
Bakitzhan Zharylkasynovich

Chairman of BD

- President of the «Center of Strategic Researches» JSC (2011-2013)
- The rector of L.N. Gumilyov Eurasian National University (2008-2011)

Year of birth:1965.

Higher education

He has no shares of suppliers and competitors of the Company

AUBAKIROV
Serik Gabdullovich

Member of BD

The Chairman of Committee of a fire service of the Ministry of Emergency Situations of the Republic of Kazakhstan (from 2008 – up to the present)

Year of birth: 1965.

Higher education

He has no shares of suppliers and competitors of the Company

SALIMGEREEV
Malyk Zhanabayevich

Member of the Board Directors, Chairman of the Fund of Board

Direcrors Managing Director of «Samruk-Kazyna» JSC (from 2012 – up to the present);

- Oil and Gas asset Management Director of «Samruk-Kazyna» JSC (2010 - 2012);

Director of Oil Industry Development Department of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (2007 - 2010).

Year of birth: 1960.

Higher education, Candidate of Geological and Mineralogical Sciences.

He has no shares of suppliers and competitors of the Company

RAU
Albert Pavlovich

Member of the Bord Directors
First Vice Minister of Industry and New Technologies of the Republic Kazakhstan (from 2010 – up to the present);
Akim Akmola region (2008 - 2010).
Year of birth: 1960.
Higher education
He has no shares of suppliers and competitors of the Company

KALUGIN
Oleg Anatolyevich

Member of the Board of Directors, independent director
Independent legal adviser
(from July 2011 – up to the present).
Deputy Director of «Altai Polymetals» LLP (August 2008 – July 2011).
Year of birth – 1968.
Higher education
He has no shares of suppliers and competitors of the Company

DUTBAYEV
Nartay Nurtayevich

Member of BD, independent director
- Vice president of «NAC «Kazatomprom» JSC (from 2008 till 2009);
- The adviser of the President of the RK, the Vice-Chairman of the Commission at the President of the RK Concerning Fight against Corruption (2008)
Year of birth:1956.
Higher education, doctor of political sciences
He has no shares of suppliers and competitors of the Company

LIST AND BIOGRAPHY OF THE MEMBERS OF THE BOARD OF DIRECTORS

KAZEYEV Yevgeny Ivanovich

Member of the Board of Directors, independent director
- General Director of «AlmatyEnergoService»(from 2000 – up to the present).
Year of birth:1964.
Higher education
He has no shares of suppliers and competitors of the Company

AUBAKIROV Kanysh Kaydarovich

Member of the Board of Directors, independent director
- First Vice-President of Football Federation of the Republic of Kazakhstan (from December 2011 – up to the present).
President - member of the Board of Directors of «Kazakhstan GNS Center»
(2009 - 2012)
Year of birth:1966.
Higher education
He has no shares of suppliers and competitors of the Company

SMAGULOV Bolat Sovetovich

Member of the Board of Directors
- President of «National Company «Kazakhstan Engineering» JSC (from August 2010 --up to the present).
President of «Kazakh State and Private Partnership Center» JSC
(2008 - 2010)
Year of birth: 1964.
Higher education
He has no shares of suppliers and competitors of the Company

According to the point 1 of the Order of the Minister of Defence of the RK №146 of April 5, 2013 Zhanzhumenov Talgat Zhenisovich's powers were ahead of schedule stopped. Also, according to the point 3 of the Order of the Minister of Defence of the RK №146 of April 5, 2013 Dutbayev Nartay Nurtayevich was appointed the board member of the Company, the independent director.

According to the point 1 of the Order of the Minister of Defence of the RK №453 of September 17, 2013 powers of the Chairman of the board of Directors Gromov Sergey Nikolaevich were ahead of schedule stopped.

According to the point 1 of the Order of the Minister of Defence of the RK № 494 of October 16 the Chairman of the board of Directors of the Company was appointed Abdraym Bakitzhan Zharylkasynovich.

According to the point 1 of the Order of the Minister of Defence of the RK № 567 of December 4, 2013 Galiyev Vladislav Germanovich's powers were ahead of schedule stopped. As, according to the point 3 of the Order of the Minister of Defence of the RK № 567 of December 4, 2013 Aubakirov Serik Gabdullovich was appointed the board member of the Company.

Independent Directors of Board of Directors are elected according to the Rules of selection of Independent Directors of the companies of the Fund approved by the decision of Board of Fund № 36/10 from June 8, 2010.

COMMITTEES OF BOARD OF DIRECTORS

At Board of Directors of the Company work 3 committees: committee of Board of Directors on audit, committee of Board of Directors on appointments and remunerations and committee of Board of Directors on strategy and investments.

In 2013 12 meetings of committees on audit (in an internal form), 10 meetings of committee on appointments and to remunerations (1 meeting of the correspondence, 9 meetings internal) and 4 meetings of committee on strategy and to investments (in an internal form) were held.

Audit committee

Audit committee acts in interests of the shareholder and its work is to assist the Board Directors of Company by elaboration of recommendations on:

1) to establishment of the effective financial and economic control system of the Company (including for completeness and reliability of financial statements)

2) to control the reliability and efficiency of internal control systems and risk management, corporate management document implementation control

3) external and internal audit independence control, Republic of Kazakhstan legislation enforcement control.

Full name	Position	Date of the basis	Participation in meetings (in %)
Kalugin Oleg Anatolyevich	Chairman of Audit Committee Independent	04 July, 2012	100
Kazeyev Yevgeny Ivanovich	Member of Audit Committee		75
Mynsharipova Saya Naymanbaykyzy	Member of Audit Committee - expert		92

At meetings of committee on audit such questions as approval of reports of Service of internal audit, determination of the amount of fee of audit organization and hearing of reports of audit organization, approval of internal documents on a control system of risks, approval of increase in number of Service of internal audit and others were considered.

Committee on appointments and remunerations

Work of the Committee on appointments and remunerations is directed on rendering assistance to Company Board of Directors by development of recommendations:

1) to involvement of the qualified experts in structure of Board of Directors, of Board, to a position of the head of Service of internal audit and the corporate secretary

2) to formation of offers for Company Board of Directors about definition of the remuneration, Independent Directors and other board members, board members according to the purposes, tasks, the current position of the Company, and level of remuneration in similar, by types and activity scales.

Full name	Position	Date of the basis	Participation in meetings (in %)
KAZEYEV Yevgeny Ivanovich	Chairman of Committee on appointments and remunerations	July, 04. 2012	100
AUBAKIROV Kanysh Kaydarovich	Member of Committee on appointments and remunerations		20
KALUGIN Oleg Anatolievich	Member of Committee on appointments and remunerations		90
KAYSENOVA Gulzhikhan Kabdylkayrovna	Member of Committee on appointments and remunerations – expert		20

At the meetings of committee on appointments and remunerations such questions as the statement the card of key indicators of activity of executives of the Company, payment of remunerations to board members of the Company, the recommendation about election of the independent director of the company and others were considered.

Committee on strategy and investments

Main objective of activity of Committee is development and submission of recommendations to Company Board of Directors on the questions concerning:

1) definitions of strategic and priority activities of the Company;

2) estimates of efficiency of perspective investment projects and their influence on increase in joint-stock cost of the Company;

3) control of implementation of strategic and investment projects of the Company.

4) opening the branches and representative offices in the Republic of Kazakhstan and in the foreign states

5) effective management of Company assets

Full name	Position	Date of the basis	Participation in meetings (in %)
DUTBAYEV Nartay Nurtayevich	Chairman of Committee on strategy and investments	May, 31. 2013	100
KALUGIN Oleg Anatolievich	Member of Committee on strategy and investments		100
KAZEYEV Yevgeny Ivanovich	Member of Committee on strategy and investments		75
MAMI Elvira Kayratovna	Member of Committee on strategy and investments- expert		50

At the meetings of committee on strategy and investments such questions as approval of the project of Strategy of development of the Company for 2013-2022, approval of the Plan of restructuring of assets of the Company for 2013-2014, questions of management of assets of the Company were considered.

Internal Audit Service

The Internal Audit Service was established by the decision of the Board of Directors of the Company of 11 May 2007; the principal objective of the Internal Audit Service is to provide the Board of Directors of the Company with independent and reliable information for the effective Company management by the assessment of the internal control, risk management and corporate management.

The main objectives of the Service of internal audit are:

1) assessment and assistance to corporate management system improvement in the Company;

2) assessment and assistance to improvement of system of internal control;

3) assessment and assistance to corporate management system improvement.

In order to observe principles of objectivity and independence of the internal audit, the Internal Audit Service of the Company is functionally subject and accountable to the Board of Directors and supervised by the Audit Committee of the Company.

The Internal Audit Service in its activity follows the Provision on the Internal Audit Service of «National Company «Kazakh Engineering» JSC and other statutory documents regulating activity of the Internal Audit Service

The decision of Board of Directors from July 04, 2013 (protocol No. 7) defined structure of Service of internal audit of the Company in number of 5 people:

1 . Head of Service of internal audit of the Company Sabitov Kayrat Mukhamedkazovich;

2 . Auditor of Service of internal audit of the Company Murzabayev Ermek Zhiksangaliyevich;

3 . Auditor of Service of internal audit of the Company Tanzharykov Kayrat Mukushevich;

4 . Auditor of Service of internal audit of the Company Ashir Ayzhanar Saydallakyzy;

5 . Auditor of Service of internal audit of the Company Sembayev Askar Kazhakhimovich;

The term of the Service of internal audit is defined before the expiration of powers of Board of Directors as a whole.

Service of internal audit in accordance with the established procedure:

- provides to Board of Directors independent objective information on Company activity;
- carries out an assessment, advises and promotes improvement of management processes by risks, internal control and corporate governance, using the systematized and consecutive approach;
- carries out other functions entering its competence according to internal documents of the Company.

Information about Remunerations

Members of board of Directors, except the Independent Directors, carry out the activity on a gratuitous basis. The amount of remunerations to Independent Directors is established by the order of the trustee. The following remunerations are paid to Independent Directors:

1) The fixed remuneration
2) Extra fee for participation in meetings of committees of Board of Directors.

By the order of the Minister of Defense of the Republic of Kazakhstan No.602 of 21 December 2013 accordance with subparagraph 5) of paragraph 1 of article 36 of Law of the Republic of Kazakhstan «On Joint- Stock Companies», subparagraph 8) of paragraph 33 of article 10 of Articles of Association of the Company and Rules of Remuneration Payment and Cost Compensation to the Independent Directors of the Fund's Companies approved by the decision of the Management Board of the Fund No.55/09 of 22 May 2009 was made the decision on remuneration payment to Independent Directors of the company for 2013 in the general size of 13 600 000 tenge, and also extra fee to Members of board of Directors for participation in each internal meeting of Committees at Board of Directors in size of 200 000 tenge.

Functional obligations of the members of the Board of Directors were specified within the frameworks of Law of the Republic of Kazakhstan «On Joint-Stock Companies», Articles of Association of the Company and Provision on the Board of Directors.

Report on Activity of Board of Directors

14 meetings of the Board of Directors of the Company, 10 meetings in presentia and 4 meetings in absentia, were held in 2013. 81 issues were considered by the members of the Board of Directors of the Company.

Participation in meetings of Board of Directors in 2013.

Full name	Position	Participation in meetings of the Board of Directors (in %)
ABDRAYMOV Bakitzhan Zharylkasynovich	Chairman of BD	100%
GROMOV Sergey Nikolayevich	Ex-chairman of BD	100%
DUTBAYEV Nartay Nurtayevich	Member of BD, independent director	83%
AUBAKIROV Serik Gabdullovich	Member of BD	0%
RAU Albert Pavlovich	Member of BD	64%
SALIMGEREEV Malyk Zhanabayevich	Member of BD	78%

Full name	Position	Participation in meetings of the Board of Directors (in %)
GALIEV Vladislav Germanovich	Member of BD	70%
KALUGIN Oleg Anatolievich	Member of BD, independent director	100%
KAZEYEV Yevgeny Ivanovich	Member of BD, independent director	93%
AUBAKIROV Kanysh Kaydarovich	Member of BD, independent director	71%
SMAGULOV Bolat Sovetovich	Member of BD	100%

The key questions of Board of Directors considered in 2013

At meetings of Board of Directors were considered both strategic, and the current questions of activity the Companies entering its competence.

The list of questions and the decision on them are reflected in the relevant protocols of meetings of Board of Directors. Internal meetings of Board of Directors were held on a regular basis according to the approved Plan of work of Board of Directors for 2013.

In 2013 at the meetings of the Board of Directors the special attention was paid to such questions as:

- formation of staff of Board of the Company;
- the program of issue of internal bonds and eurobonds;
- strategy of development of the Company;
- transactions to make the Company is interested in and etc.

As a whole for the reporting period the Board of Directors and its committees actively interacted with the sole shareholder, the trustee, executive body and all interested parts of the corporate relations for the effective solution of the tasks set for the Company.

STRUCTURE, MEMBERS OF THE BOARD AND THEIR BIOGRAPHIES

SMAGULOV
Bolat Sovetovich
The Chairman of the Board

Year of birth:1964
Chairman of Board, «National Company «Kazakhstan Engineering» JSC (since August, 2010– present time).
Chairman of Board,
«Kazakhstan Center for Public Private Partnership» JSC (2008 - 2010)
Higher education
Doesn't hold shares of suppliers and competitors Company

BIZHANOV
Dimash Nurakhmetovich
Member of Board

Year of birth: 1967
Vice-Chairman of Board,
«National Company «Kazakhstan Engineering» JSC (since June, 2011 – present time).
General Manager for Service Projects,
«National Company «KazMunaiGas» JSC (2010 – 2011).
Director of Department of Service
Assets Management, «NC «KazMunaiGas» JSC (2010 – 2010).
Chief Manager of Department, North Caspian Project of «NC «KazMunaiGas» JSC (2009-2010).
Higher education
Doesn't hold shares of suppliers and competitors Company

SARSEMBAYEV
Adlbek Zeynullayevich
Member of Board

Year of birth:1978
Vice-Chairman of Board, «National Company «Kazakhstan Engineering» JSC (since June, 2011 – present time).
Managing Director,
«National Company «Kazakhstan Engineering» JSC (08.2010 - 06.2011).
The chief of staff of Akim of the North Kazakhstan area», Petropavlovsk (10.2008 - 04.2009)
Higher education
Doesn't hold shares of suppliers and competitors Company

TILEBALDINOV
Kairat Rakhatovich

Member of Board

Year of birth:1975

Vice-Chairman of Board, «National Company «Kazakhstan Engineering» JSC (since April, 2012 – present time).

Vice-Chairman of Committee for Trade of the Ministry of Economic Development and Trade of the RK (2011 –2012).

Chairman of Board, «Kazakhstan Center for Public Private Partnership» JSC (2010 –2011).

Vice-Head of the Bureau for PPP,
UN Economic Commission for Europe (2010 –2011).

Vice-Chairman of Board, «Kazakhstan Center for Public Private Partnership» JSC

Higher education

Doesn't hold shares of suppliers and competitors Company

MURATOV
Erlan Muratovich

Member of Board

Year of birth: 1976

- The Vice-Chairman of Board of of «NC «Kazakhstan Engineering» (from 2013 - to the present);
- Chairman of Committee of the Industry of the Ministry of the industry and new technologies of the Republic of Kazakhstan (2013)
- Deputy prime minister of the industry and new technologies concerning the industry, developments of service and local content (2013)
- The chief supervision and control expert of management for electro – heat-generating stations, heat-generating installations of Committee of the state power control and supervision of the Ministry of the industry and new technologies of the Republic of Kazakhstan (2012)

The Director of International Ultimate Training Center LTD, Kazakhstan Training at technical courses for oil and gas and mining industry (2009-2012)

- Consultant for oil and gas projects, «Oil Consultants Limited», England, UK (2009)
- Senior engineer, «QSP» LTD (2008)

BERGENOV
Adylgazy Sadvokasovich

Member of Board

Year of birth: 1958

The chief of «NC «Kazakhstan Engineering» JSC (from 2010 - to the present);

Akim of the East Kazakhstan region (2008-2009)

Higher education

Doesn't hold shares of suppliers and competitors Company

Changing in part of board of the Company in 2013.

According to the decision of Board of directors №11 of November 04, 2013 powers as a part of Board of the Company of the Vice-Chairman of Board of the Company Kim Vissarion Valerievich since August 11, 2013 in connection with death are ahead of schedule stopped.

BOARD COMMITTEES

RISKS COMMITTEE

The Committee is an advisory and consultative body under the Board of the Company and is established to pre-review and make recommendations to the Company Board for making decisions on the risk management system of the Company.

The Committee's main objectives include the followings:

1. to assist the Company Board in decision-making on the issues of risk management of the Company;
2. to organize and maintain an effective risk management system;
3. to develop processes designed to identify measure, monitor and control risks;
4. to make recommendations and proposals to control over coordination of risk management in the Company and its subsidiaries/ affiliated organizations.

INVESTMENT AND INNOVATION COMMITTEE

The Committee is a permanent collegial advisory and consultative body under the Board of the Company.

The main purpose of the Committee is to increase efficiency of investment and innovation activities of the Company and Organizations, as well as to form a unified policy of the Company and Organizations on the issues of Kazakhstan content development.

CREDIT COMMITTEE

The Committee is a permanent collegial advisory and consultative body under the Board of the Company.The main purpose of the Committee is to provide timely and quality decision-making on the issues related to the provision of credits (loans), financial assistance and guarantees, the Company's assets and liabilities management, minimization of risks associated with raising and investing of monetary funds, and increasing of the Company's profitability.

REMUNERATION OF BOARD MEMBERS

Rules of an assessment of activity and remuneration of executives, head of Service of internal audit and Corporate secretary of «NC «Kazakhstan Engineering» JSC are developed according to the legislation of the Republic of Kazakhstan, Policy of an assessment of the activity and remuneration of the leading and administrative workers, heads of Services of internal audit and Corporate secretaries of the Company «Samruk-Kazyna» JSC approved by the decision of Board of «Samruk-Kazyna» JSC of April 9, 2013 (protocol № 17/13) and defines conditions and an order of an assessment of activity and payment of remuneration of the specified employees of «NC «Kazakhstan Engineering» JSC.

Procedure of an assessment of efficiency of activity of executives consists of the following stages:

- choice of motivational efficiency, statement of target values;
- statement of motivational efficiency;
- productivity monitoring;
- calculation and statement of the actual productivity.

Motivational efficiency cards (efficiency cards) are developed for executives by Committee on appointments and remunerations of Board of directors of the Company, coordinated with them regarding an optimality of number of efficiency cards (3-7), arrangements of scales and adequacy of target values and are in accordance with the established procedure taken out by responsible division on the approval by Board of directors of the Company no later than March 31 of fiscal year.

Remunerations by results of activity (short-term and long-term remunerations) are paid depending on results of work for the purpose of material encouragement for achieved success and increases of overall performance, have no constant character and aren't considered at calculation of an average salary.

The Board of directors of Company according to recommendations of Committee on appointments and remunerations of Board of directors of the Company has the right to make the decision on remuneration nonpayment by results of activity at:

1) non-performance of threshold values of separate corporate efficiency cards;

2) total productivity of performance of functional efficiency cards - less than 50% (inclusive).

The main condition of payment of remuneration following the results of work in a year is existence of the consolidated total profit for the fiscal year, calculated taking into account the planned sum for remuneration payment.

Following the results of work in a year the workers who have actually fulfilled in the reporting period not less than 5 (five) months have the right to remuneration, following the results of performance of the approved efficiency for fiscal year, and also again accepted workers for whom the efficiency cards till the first of August are approved fiscal year.

REPORT ON BOARD ACTIVITY

In 2013 54 meetings of Board of the Company were held. In total 191 questions were considered there.

The key questions of Board of the Company considered in 2013

At board meetings of the Company both the strategic and current questions of activity of the Company entering its competence were considered.

The list of questions and the decision on them are reflected in the relevant protocols of Board meetings of the Company. Board meetings in presentia of the Company were held on a regular basis.

In 2013 at Board meetings of the Company the special attention was paid to such questions as:

- decision-making on the questions which are within the competence of general meeting of shareholders/participants of ADS;
- the approval of the documents accepted for the organization of activity of the Company;
- appointment of heads of executive bodies of the affiliated organizations;
- approve and rendering assistance of implementation of strategic projects of the Company, such as «Modernization of production of «Semey Engineering» JSC, «Creation of the Aerotechnical center in Astana» and others.

As a whole for the reporting period the Board of the Company interacted with the sole shareholder, the trustee, executive body and all interested parties of the corporate relations for the effective solution of the tasks set for the Company.

REPORT ON ACTIVITY OF SERVICE OF INTERNAL AUDIT OF THE COMPANY

The decision of Board of directors of the Company from December 27, 2012 (Protocol №96) approved the Annual auditor plan of the Service of Internal Audit (SIA) of the Company for 2013.

The service of internal audit of the Company in 2013 according to the approved Annual auditor plan performed 12 auditor tasks with achievement in full auditor purposes and tasks.

Audit captured such key business processes, as planning and budgeting, operating activities of the separate affiliated organizations with the analysis of prime cost of made production, investment activity of the Company with an assessment of execution of investment projects, the business processes connected with purchases of the Company and its affiliated organizations. Besides, within the annual auditor plan of SIA according to the purposes and problems of internal audit the assessment of system effectiveness of internal control and a corporate control system of risks in the Company is carried out. By results of the booked audits, according to the tasks assigned to it the recommendations submitted on improvement of a corporate management system, internal control and risk management in the Company on increase of management efficiency within operational and strategic objectives of activity are issued to SIA.

Actions for execution of the Annual auditor plan are executed in full, the report on Service activity for 2013 is considered by Committee on audit of Board of directors of the Company and Company Board of directors.

SIA makes on a constant basis monitoring of execution of the issued remarks and recommendations with the report on results to Committee on audit.

In the Company the system on elimination of remarks and implementation of recommendations of SVA, external auditors and other checks, including «Samruk- Kazyna» JSC and government bodies work is created.

The monitoring system on elimination of remarks and implementation of recommendations through formation of the plans of measures with hearing of performers about results of the carried-out work on Committee on audit of Board of directors of the Company, with the subsequent informing of Board of directors of the Company is created.

In all affiliated organizations of the Company the services of the internal audit operating on the basis of accepted internal documents, regulating their activity are also created.

SYSTEM OF INTERNAL CONTROL. RISK MANAGEMENT

The company attaches great value to due functioning of systems of internal control and risk management, as to a key element of realization of strategy of development of the Company.

The main goal of a risk management of the Company is an achievement of an optimum level of a ratio of risk and profitability of activity of the Company.

In 2013 risk management procedures proceeded to be improved. The board of directors of the Company made changes to risk management Policy, regarding improvement of methods of an assessment of risks, management of critical risks and expansion of functions of Board of directors of the Company.

The policy of risk management of the Company is directed on maintenance of optimum structure risk of management for providing acceptable level of risks and achievement of higher results of activity, due to identification, an assessment, minimization of risks and monitoring of risks.

RISK MANAGEMENT

«National Company «Kazakhstan Engineering» JSC attaches great value to management of risks. The main goal of a risk management of the Company is an achievement of an optimum level of a ratio of risk and profitability of activity of the Company.

In 2013 the Company continues to pay much attention to risk management improvement as to a key element of realization of strategy of development of the Company. The company approved the Technique of the accounting of the realized risks, changes are made to risk management Policy, the Provision on Committee on risks. Also the card of risks for 2013, the Register of risk for 2013 and the plan of measures on management of critical risks for 2013, the Matrix of risks and control for 2013 were approved. The Company board on a quarterly basis informs Company Board of directors on activities for risks.

At Board of the Company the Committee on risks which in 2013 held 6 meetings at which 16 questions are considered functions.

The Company board quarterly oyers the report on activity of Committee on risks.

Today the uniform practice of a risk management assuming management of financial risks (including credit, market, currency risks, risks of liquidity and percentage risks) and operational risks is applied to all processes in the Company.

The management of financial risks assumes definition of limits of risk and control of that the risk of potential losses wasn't beyond such limits. Management of operational risks consists in providing appropriate functioning of internal processes and procedures for minimization of susceptibility of the Company to other internal and external risk factors.

The management of financial risks as a key component of a corporate management system of the Company and its affiliated organizations is directed on timely identification and acceptance of administrative measures for decrease in level of risks which can negatively influence the cost and reputation of the Company and the enterprises of group of the Company.

Risks of the Company in 2013, measures for their decrease

In 2013 in the register of risks of the Company 42 most significant risks, according to the long-term and medium-term goals of the Company are identified.

Thus to critical risks are referred:

- risks of investment projects;
- risks of damage of reputation;
- risks of non-compliance with the working conditions established by the law;
- risks of judicial proceedings.

Risk management of investment projects (risks of design, lack of positive examinations, wrong choice of the project, failure to provide of the innovative project sufficient level of financing). Possible emergence of these risks is caused by such factors as unreasonable definition of priorities of economic and market strategy, and also the corresponding priorities of different types of the innovations, capable to make a contribution to achievement of the objectives of the Company, low-quality and untimely preparation financial and economic and the feasibility study on the project.

For risk management of investment projects and providing with sufficient resources for implementation of investment projects by the Company proceeds of credit by placement of Eurobonds in the international markets of the capital for the sum of 200 mln. dollars of the USA are attracted.

Thus, for management of currency risks of the Company at attraction of the eurobonds stated above the Company uses natural hedging - structural balancing of assets and liabilities with the purpose to block losses from change of an exchange rate by the profit got from the same change on other positions of balance.

Also, in November, 2013 Strategy of development of the Company for 2013-2022 in which investment priorities of the Company are defined is approved.

Also for decrease in emergence of risk of investment projects in the Company the Investment and innovative committee which meetings are held on a constant basis on discussion of new and realized investment projects functions.

The department of innovative development and investments which carries out monitoring of implementation of investment projects of group of the Company is formed, information on results of monitoring is considered at Board meeting and Board of directors of the Company.

For decrease in risk of inefficient investments into the new directions of development and other operational risks the strategic partners having the best international practices at introduction of similar production are attracted.

For decrease in risk of future demand for production within realized projects the need of potential buyers is studied previously, procedure of examination of production is carried out from potential customers, and the corresponding memorandums and contracts on intention with potential customers are signed.

Risk management of damage of reputation (image risks). This risk is operational risk. Possible emergence of this risk is caused by such factors as the publication of negative articles in electronic and print media about non-performance of objectives, non-compliance with requirements of the legislation, norms and professional business ethics, commission of corruption and roguish actions.

For risk management of damage of reputation the press service which carries out monitoring of mass media on a constant basis is created, and also provides publications about activity of the Company and the organizations of group of the Company. According to the Media plan on a constant basis publicizing of activity of the Company on a corporate site of the Company, and also on the page on the social network «Facebook» is carried out.

In case of the publication of negative information carrying out actions for a denial or the publication of positive information is provided.

Risk management of non-compliance with working conditions. This risk is operational risk and characterizes approach of occupational accidents. Possible emergence of this risk is caused by such factors as errors of the personnel on observance of requirements of safety measures, lack of mechanisms of updating of knowledge of workers on an applicable law on a constant basis, non-compliance with the legislation of the Republic of Kazakhstan in the course of activity implementation.

For prevention of occupational accidents divisions on safety and labor protection in the organizations of group of the Company function, schedules of training and carrying out instructing of the personnel are approved. Personnel safety notifications are held on a constant basis.

Risk management of judicial proceedings. This risk is operational risk. Possible emergence of this risk is caused by such factors as non-compliance with the legislation, breach of obligations within various contracts, agreements.

For risk management of judicial proceedings in the affiliated organizations of the Company legal services which carry out examination under signed contracts function. Besides, the legal department of the Company gives methodological and consulting help to the organizations of group of the Company, and also participates together with lawyers of the affiliated organizations of the Company in judicial proceedings.

INTERNAL CONTROL

Company activity within the system of internal control (SIC) is carried out according to the Provision on system of internal control of the Company, approved in the new edition in July, 2013 (the decision of Board of directors of the Company of July 04, 2013, the protocol № 7).

The provision on system of internal control determines concept, the purposes and problems of system of internal control, the principles of its functioning, key areas and the main components of system of internal control, procedure of internal control at implementation of activity of the Company, competence and responsibility of subjects of internal control by execution of procedures of internal control and an assessment of system of internal control in the Company.

Responsibility of Board of directors for the organization of system of internal control in the Companies, and responsibility of Board – for effective functioning of SIC is enshrined in the Provision on system of internal control. Thus the Service of internal audit of the Company acts as part of continuous monitoring of system of internal control of the Company and directly estimates system of internal control regarding its compliance to goals, tasks and the set criteria and provides recommendations about improvement of system of internal control.

According to the Provision on system of internal control within organizational structure of the Company approved by Board of directors of June 13, 2013 (Protocol № 6) the division on risk management and internal control is provided in the Companies which tasks include the organization of functioning and improvement of system of internal control, including:

- organization of functioning and improvement of system of internal control;
- ensuring informing of Board and Company Board of directors about a condition of system of internal control in the Company and in group of the Company, and also about essential deviations in processes of system of internal control;
- rendering the methodical and practical help with the organization of system of internal control, and also of implementation of monitoring of system effectiveness of internal control in the affiliated organizations of the Company;

The company took measures for the adoption of provision on system of internal control in the affiliated organizations.

The service of internal audit in 2013 carried out an assessment of system effectiveness of internal control.

Audit was booked according to requirements «Techniques of an assessment of system effectiveness of internal control of the affiliated and dependent organizations of «Samruk-Kazyna» JSC (further - the Technique). By results of an assessment of SVA it is given out 17 recommendations submitted on improvement of system of internal control in the Company.

Besides, the service of internal audit of the Company carries out an assessment of system of internal control in the course of audit of separate business processes.

Within improvement of system of internal control of Society, for the purpose of elimination of the discrepancies revealed by Service of internal audit during carrying out an assessment of system of internal control, the Company developed the Plan of measures on improvement of system of internal control of the Company on 2013-2014 y. The plan of correcting actions (further – the Plan), approved by Committee on audit of Board of directors of the Company of September 7, 2013.

According to the Plan in reporting year 6 actions (35,3%) are executed. Execution of the remained actions is planned for 2014.

SUSTAINABLE DEVELOPMENT
CORPORATE SOCIAL RESPONSIBILITY

Growth of long-term cost of the Company and its assets is impossible without interests of all interested parties, including interests of society. According to the Strategy of development, the Company seeks to become the exemplary employer and the leader in the field of safety of production and environment protection.

In this regard, for realization of this direction of development, the Company sets the purpose to raise standards of social responsibility in the Company enterprises through:

1) Regulation of the social and labor relations on the basis of the principle of social partnership.

2) Formation of system of training.

3) Transition to «green» economy.

The decision of Board of directors from November 28, 2013 approved Policy in the field of corporate social responsibility of the Company and its affiliated organizations.

For providing a sustainable development the special attention will be paid to the following priority directions in the field of corporate social responsibility:

1) effective regulation of the social and labor relations on the basis of the principle of social partnership;

2) formation of effective system of training and development of personnel;

3) ensuring ecological stability and safety on production;

4) definition, development and deployment of uniform policy in the field of implementation of social projects;

5) creation of uniform communication strategy.

In the activity the group of the Company realizes and assumes responsibility before all interested parties (internal and external), including:

1) employees of the Company and its affiliated organizations;

2) The company before the affiliated and dependent organizations of the Company;

3) investors, suppliers and consumers of goods, works and services;

4) government bodies;

5) non-profit organizations and other legal entities;

6) local communities.

Process of the organization of interaction of the Company and its affiliated organizations with interested parties is based on the principles of respect of the rights of all interested parties.

Activity of group of the Company in the field of CSR has to promote the solution of the following tasks:

1) development of own personnel will allow not only to avoid turnover of staff, but also to involve the best experts in the market;

2) growth of Labor efficiency;

3) image improvement, growth of reputation;

4) possibility of attraction of the investment capital on profitable terms;

5) effective management of the risks arising in the course of interaction with interested parties;

6) preservation of social stability in society in general;

7) stable and sustainable development of group of the Company in long term prospect.

Within realization of corporate social responsibility of the Company in 2013 the following work is carried out.

On a constant basis monitoring of the social and labor conflicts, introduction and promotion in group of the Company of instruments of mediation is carried out.

In November, 2013 the Report on results of definition of a rating of social stability of the Company is submitted. 5 affiliated organizations of the Company which included a complex assessment of social mood of the production personnel and social development took part in research. The index of social stability of the Company made 71% and on the accepted rating scale value of an index of social moods of 63%, and an index of social development of 87% is estimated as above an average. On an index of an involvement and entering its part indicators of satisfaction with labor conditions and loyalty of the Company is in a stability zone.

Research of an involvement of the administrative and managerial personnel of the Company is also conducted (research is conducted by PI (Private Institution) «CU» (Corporate University) «Samruk-Kazyna». Research objective is an assessment of social well-being in labor collective. Research problem was definition of degree of an involvement of the personnel through the integrated index of an involvement consisting of three key blocks: satisfactions of the personnel, loyalty of the personnel to the Company and initiative supports by the personnel. As showed results of research, the index of an involvement in the Company is in a zone of stability and makes 53%.

The organization of social partnership at Company subsidiaries

On February 5, 2011 the tripartite Industry agreement in mechanical engineering branch between the Ministry of the industry and new technologies of the RK, the Company and public association «Labor Union of Workers of Mechanical Engineering of the Republic of Kazakhstan» for 2011-2013 is concluded.

This agreement is directed on the solution of the following main objectives:

development of social partnership on the basis of mutual trust, exchange of information and cooperation;

- ensuring stable work of the enterprises;
- creation of conditions for Labor efficiency;
- definition of a mode of work and rest;
- compensations (the tariff agreement);
- gender and youth policy;
- labor protection and safety measures;

- social guarantees, privileges and compensations;
- definition of the minimum industry standard of compensation;
- definition of measures for protection of legitimate rights and interests of workers;
- creation of conditions for implementation of activity of labor union.

In the following affiliated organizations of the Company branches of Public association «Labor Union of Workers of Mechanical Engineering of the Republic of Kazakhstan» - primary labour-union organizations work:

«Petropavlovsk Plant of Heavy Mechanical Engineering» JSC, «Plant of S. M. Kirov» JSC, «Munaymash» JSC, «Semipalatinsk Engineering Plant» JSC, «Semey engineering» JSC, «SRI «Gidropribor» JSC, «IMP «Omega» JSC, «UP»Zenit» JSC, «Car repair plant 811 KI» JSC, «Tynys» JSC

The number of workers at these enterprises is 4144 people, membership in labor union makes 75%.

Primary trade-union organizations act under the Provision on branch of Public association «Labor Union of Workers of Mechanical Engineering of the Republic of Kazakhstan». The Head of primary trade-union organizations are the chairmen of trade-union committees elected by members of labor union and on the basis of the power of attorney of Public association «Labor Union of Workers of Mechanical Engineering of the Republic of Kazakhstan».

Control over the implementation of conditions of the collective agreement is exercised by constantly operating collective agreement commission consisting of equal number of representatives of the Employer and the Representative of workers.

The parties annually report on implementation of the taken obligations at meeting (conference) of workers.

Sponsor's and charitable help

Within realization of this direction in 2013 it was rendered:

- the sponsor's help for support of separate sports for the sum of 74 712 400 tg. including - OS «Mini football club «SKA-South» 74 000 000 tg. OS «Federation of Military and Sports Clubs» 712 400tg. ;
- the charitable help for the sum of 4 185 000 tg. including – under article support of the pensioners consisting on the account in the Organization, and veterans of the Second World War and the persons equated to them 1 185 000tg. and also to Almaty city council of branch RPS «Veterans of Armed Forces» on the organization and holding a funeral of the General Nurmaganbetov S. K. (first Minister of Defence of the RK).

DEVELOPMENT OF THE PERSONNEL AND PROFESSIONAL EDUCATION

One of key factors of success in group of the Company is personnel potential. The effective organizational structure is created for more successful management and development of human resources

Selection of the experts conforming to qualification requirements and possessing necessary knowledge, skills, business and personal qualities is carried out in due time and systemically.

Within motivation and encouragement of workers on a constant basis work on attraction and deduction of highly effective workers, and also increases of level of knowledge and skills of workers is carried out.

Personnel policy is focused on effective personnel maintenance of realization of Strategy of development of the Company with the strong corporate culture, providing uniform approaches in work with the personnel within the best corporate practice on all Company.

Main objective of Personnel policy is increase of management efficiency by the personnel by a way of creation of a control system by human resources of the Company directed on receiving the maximum profit and ensuring leadership in the competitive environment, based on economic incentives both social guarantees, and promoting a harmonious combination of interests, both the employer, and the worker and to development of their relations for the Company benefit.

The personnel management system has to be based on rational and reasonable planning of human resources, use of modern HR technologies and the effective motivational mechanisms, allowing to provide effective production and to solve strategic problems at high professional level.

The main conceptual objectives on realization of Personnel policy consist in the following:

- ensuring realization of personnel policy in a uniform format on all Company;
- further promotion of the project on development and deployment of professional standards which establish requirements to the contents and working conditions, to qualification and competences of workers on various qualification levels;
- further development of complex system of planning of personnel resources taking into account requirement of the business directions, their rational placement and effective use;
- increase of professionalism of workers of all levels of management on the basis of development of corporate system of continuous education, improvement of system of corporate training on the basis of professional standards;
- reduction of system of compensation in compliance with complexity and level of performed works;
- ensuring social protection and increase of working conditions of workers.

Implementation of the tasks has to provide optimum balance of processes of updating and reduction of quantitative and qualitative structure of compliance with requirements of business and requirements of the current legislation and a condition of labor market.

Within realization of Personnel policy the analysis of training of employees of ZA is carried out, the presentation of the program for development of dual system of training in the Company is held, the project of an industrial practice platform of «Tynys» JSC, offers on buildings in the Shuchinsk-Borovoe zone for the educational and improving center are brought. Individual development plans of employees for 2014 are introduced.

The company developed the plan of training of the personnel for the current year. At the same time, all affiliated organizations planned money for 2014 on planned training of the personnel. Separate Societies will direct workers to foreign training, it is planned to carry out training in the second and adjacent professions, actions for professional development of workers and technical officers. Besides, planned training in some cases includes also training, primary examination and performance of work under control of the mentor.

SAFETY OF WORK AND HEALTH PROTECTION

The company carries out system measures for increase of safety of work on production. The enterprises of the Company fulfill the assumed obligations, including:

- ensuring normal temperature on workplaces during the autumn and winter period. Actions for preparation of shops and departments by autumn winter period according to the plan schedule are carried out by October 1 annually;
- ensuring sufficient illumination of workplaces;
- analysis of the reasons of operational injuries and taking measures to its prevention;
- carrying out routine medical examinations;
- delivery to employees of plant of special clothes, footwear, means of individual protection;
- delivery of milk and other foodstuff on established norms on the workplaces connected with harmful working conditions;
- insurance of responsibility for the harm done to life and health of workers at execution by them of labor duties;
- continuous control of observance of requirements of labor protection;
- providing workshops, first-aid post necessary medicines for rendering the emergency help to employees of plant;
- quarterly inventory of sources of environmental pollution and taking measures to improvement of an ecological situation.

ENVIRONMENT PROTECTION

The enterprises of the Company carry out work on development of plans of their modernization for development of new types of production, increase in productivity, diversification of production, increase of energy efficiency, energy saving development.

The separate enterprises carried out modernization of productions in 2013, others plan these actions in the future. Besides, within the law RK «About Energy Saving and Energy Efficiency Increase» in 2014 of the enterprise of the Company plan carrying out an obligatory energy audit by results of which will be received to recommendation execution, including on input of new energy saving and environmentally friendly technologies.

The main objectives on ensuring ecological stability and safety are:

- respect for the environment;
- creation of a favorable, healthy and safe situation for workers, to injury prevention and diseases;
- observance of norms and standards in the field of labor protection and production safety;
- increase of energy efficiency of activity;
- introduction of system of the reporting.

Ecological stability is reached by means of investment in improvement of ecological characteristics of business.

The company seek for observance of the principles as much as possible respect for the environment and rational use of natural resources, promote the prevention of negative impacts on environment, undertake the initiatives directed on increase of responsibility for a state of environment, promote development and distribution of environmentally friendly and energy saving technologies, carrying out environmental monitoring and open providing ecological information.

The system of ecological management will include:

a) collecting and an assessment of the adequate and timely information concerning consequences of their activity for environment, health and safety;

b) establishment of the measurable purposes on improvement of ecological indicators and rational use of resources;

c) regular monitoring and check of progress on achievement of the objectives on environment protection, health and safety.

The special attention will be paid to energy efficiency increase, resource-saving and use of alternative energy sources at the enterprises of the Company, to increase of culture of safe behavior of the personnel and observance of safety measures on production.

ACTIVITY OF THE AFFILIATED AND DEPENDENT ORGANIZATIONS

ACTIVITY OF THE AFFILIATED AND DEPENDENT ORGANIZATIONS

«Tynys» JSC

«Tynys» JSC - earlier known as plant of the Oxygen and respiratory equipment, is founded in 1959. It is the only enterprise (tracing-paperholder) for release of 45 names of the aviation products which have been earlier developed by the Design Offices (DO) of Modular plant «Nauka» Moscow, KB of engineering plant «Zvezda» of the city of Tomilino, KB of engineering plant named after A.I.Mikoyan of the city of Moscow.

Following the results of 2005 the enterprise is awarded awards of the Government of the Republic of Kazakhstan «For achievements in the field of quality».

Main types of made production are:

- the life support equipment for the aircraft equipment and means of aviation automatic equipment;
- aviation products for civil and military planes and helicopters of the brands AN, IL, TU, YAK, BE SU, MIG, MI, KA, Ansat;
- polyethylene pipes and fitting and another.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/ pers.
2011 fact	3 631 138	4 033 967	3 809 073	657 497	6 012
2012 fact	4 652 426	4 823 054	4 660 940	658 668	7 202
2013 fact	5 583 012	5 839 329	5 771 931	528 255	8 198

«Petropavlovsk Plant of Heavy Mechanical Engineering» JSC

«Petropavlovsk Plant of Heavy Mechanical Engineering» JSC - the enterprise which is the leading Kazakhstan producer of the oil and gas, power and railway equipment and having versatile capacities with existence of all technological repartitions necessary for release of this production in mechanical engineering. In 2011 the enterprise celebrated 50-year anniversary of release of the first production.

Within 30 years the enterprise was included into the Ministry of the defensive industry of the USSR.

As a part of the enterprises of 19 production workshops and sites in which about 2000 units of processing equipment are involved, there is a design-technology center in which more than hundred qualified engineers and designers work. More than 40 types of the petrochemical equipment, and also gamma production for power and chemical complexes are developed and put on production of 11 products of the oil-extracting equipment.

At the enterprise production of the oil and gas equipment, equipment for the oil and gas processing, power and chemical production, the railway equipment special production is arranged. In 2013 at the enterprise a lot of work on development and development of new products are performed, the nomenclature of the let-out heat exchange and power equipment is expanded.

There are all necessary licenses and certificates for the organization of production.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/ pers.
2011 fact	3 005 700	2 819 740	2 774 172	16 583	2 602
2012 fact	5 108 200	5 737 000	5 670 365	208 050	4 493
2013 fact	5 570 012	5 674 835	5 597 850	326 671	4 843

«Ural plant «Zenit» JSC

«Ural plant «Zenith» JSC is created on the basis of the plant «Dvigatel» evacuated in 1941 from Leningrad. During war I it let out special naval arms. For merits in providing army and fleet in days of the Great Patriotic War, the plant, only among the enterprises of Kazakhstan, was awarded with the order of Patriotic war of 1 degree.

Primary activity is construction of boats and ships in which the plant is engaged since 1993 that served as the origin beginning in the Republic of Kazakhstan to new branch of the industry - shipbuilding. It became possible thanks to existence at plant of the corresponding technical and production capabilities, intellectual and personnel potential. During this time the mass production of boats and ships with the displacement up to 240 tons is mastered.

Its products:

- Shipbuilding
- Production for oil and gas complex
- other civil production.

It is also in the long term planned to let out specialized sea vessels with a dry weight up to 600 tons (multipurpose support vessels, floating laboratories, tows with a small deposits, vessels of delivery of rotational change, search and rescue and fire vessels).

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/pers.
2011 fact	2 984 010	1 145 419	1 087 494	66 745	3 323
2012 fact	4 682 732	6 758 734	6 741 681	549 164	5 135
2013 fact	5 223 529	5 243 294	5 224 778	332 406	5 528

«Munaimash» JSC

«Munaimash» JSC is formed on the basis of the Taganrog plant «Red Hydropress» evacuated in the city of Petropavlovsk in November, 1941.

The enterprise specializes on output of an oil and gas complex. Production is made on original technology and possesses high precision, anticorrosive stability by the hostile liquid and gas environment, the increased wear resistance. By operational technical characteristics pumps are at the level of the best world samples. Production intended to production, is developed taking into account requirements of the oil-extracting enterprises developed in use, analog products and can be finished taking into account requirements of the customer.

Within implementation of the investment project «Modernization of Machining Production of Products of Oil Industry» as investments funds in the form of the state support are raised: long-term leasing financing by means of participation in the Productivity 2020 program.

Large-scale modernization is carried out, the latest metalworking equipment of production «Nakamura Tomi» (Japan) is introduced and the automated control system for design and the production, conforming to the highest international standards is created.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/pers.
2011 fact	1 959 789	2 563 343	1 955 401	213 462	14 410
2012 fact	1 685 834	2 407 746	1 669 931	90 322	12 925
2013 fact	2 357 027	3 213 835	3 174 628	183 740	15 109

«KazEngElectronics» JSC

«KazEngElectronics» JSC (earlier - the National center for radio electronics and communication of the RK) is created in 1994 on the basis of a scientific and technical complex of the range of «Sary-Shagan», the enterprises and the organizations of a radio engineering profile.

Primary activities of the enterprise are modernization and capital repairs of arms, military and special equipment, production of modern means of communication and radio electronics products, assembly production of the computer equipment.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including	Total profit	Labor efficiency, thousand tenge/ pers.
			income from production realization		
2011 fact	435 310	435 311	435 311	9 423	4 784
2012 fact	2 447 489	2 326 995	2 326 242	5 172	24 974
2013 fact	1 789 390	1 842 440	1 789 391	5 451	12 601

«Plant named after S.M. Kirov» JSC

«Plant named after S.M. Kirov» JSC is founded in 1928 with specialization of production of radio equipment. In 1941 the plant was evacuated to the city of Petropavlovsk.

Primary activity of the enterprise is design and production, installation, commissioning, service and repair of means of communication, railway automatic equipment, safety systems for needs of the Ministry of Defence of the Republic of Kazakhstan, railway transport, an oil and gas complex, technical means for digital television and special means.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including	Total profit	Labor efficiency, thousand tenge/ pers.
			income from production realization		
2011 fact	5 510 811	5 536 004	5 524 532	288 473	10 149
2012 fact	6 504 981	6 166 916	6 114 875	329 317	10 164
2013 fact	8 520 237	8 295 669	8 249 825	473 577	12 456

«Machine Building Plant named after S.M. Kirov» JSC

«Machine Building Plant named after S.M. Kirov» JSC is created in 1942 on the basis of the plant №182 evacuated from under Makhachkala (nowadays plant «Dagdiesel»).

At the enterprise production of the sea underwater weapon, products of ship hydraulics, ship systems of automatic control by process of burning of coppers, spare parts for the railroad, products for the mining industry and an oil and gas complex is arranged.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including	Total profit	Labor efficiency, thousand tenge/pers.
			income from production realization		
2011 fact	827 864	1 266 302	853 803	12 910	2 208
2012 fact	740 750	747 057	564 964	(311 192)	2 218
2013 fact	527 526	881 798	806 097	(333 204)	1 570

«SRI «Gidropribor» JSC

«Scientific Research Institute «Gidropribor» JSC is created in the city Uralsk in 1972 on the basis of special design bureau of Engineering plant named after K.E. Voroshilov, as the Ural branch of the Leningrad «Central Research institute «Gidropribor» of the Ministry of the ship-building industry of the USSR for researches, development and production of robotic means of underwater application for carrying out search, rescue and special underwater and technical works.

Now the main activities of the enterprise are concentrated on researches, design, production and engineering in the field of shipbuilding, a mobile robotics, and also on production of the equipment for oil and gas sector.

For performance of these works at the enterprise there are all necessary licenses and certificates for the organization of production.

In 2012 the enterprise passed accreditation in the Ministry of Education and Science of the Republic of Kazakhstan and received the Certificate as the subject of scientific and (or) scientific - technical activity.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/pers.
2011 fact	301 650	306 011	301 350	9 086	2 556
2012 fact	377 756	381 603	377 756	4 503	2 974
2013 fact	472 646	476 398	472 646	18 385	3 376

«Car repair plant 811 KI» JSC

«Car repair plant 811 KI» JSC was created in the city Ereymentau on July 1, 1976, for ensuring the capital and regulated repair of automotive vehicles of the Turkestan and West Siberian military districts of the USSR.

During activity more than 30 years the enterprise saved up a wide experience in the sphere of repair and equipment re-equipment. Production of plant deserved good reputation.

The main activities are capital repairs, modernization, re-equipment and service of cargo automotive vehicles of all modifications.

The enterprise specializes on capital repairs, modernization, re-equipment and service of cargo automotive vehicles of all modifications.

There are all necessary licenses and certificates.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/ pers.
2011 fact	610 756	615 739	610 245	87 100	4 662
2012 fact	399 874	402 402	399 604	2 148	3 278
2013 fact	394 544	399 169	394 387	11 209	2 989

«Semipalatinsk Engineering Plant» JSC

«Semipalatinsk Engineering Plant» JSC was founded in 1969 as Rubtsovsk Engineering Plant (REP) branch according to the order of the Ministry of the defensive industry of the USSR.

Capacities of plant are focused on release of caterpillar equipment of high passability and spare parts to it, completing to railway transport, and also production of the general mechanical engineering.

At the enterprise production of the caterpillar conveyor tractor CC-T and spare parts to it, accessories of a rolling stock of railway transport, production of the general mechanical engineering is arranged.

There are all necessary licenses and certificates for the production organization.
The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/pers.
2011 fact	636 876	493 326	478 738	7 220	4 163
2012 fact	1 466 020	1 815 813	1 807 056	182 961	10 445
2013 fact	1 898 148	856 322	843 963	6 870	8 628

«Semipalatinsk Engineering» JSC

«Semipalatinsk Engineering» JSC is created by reorganization of the RSE (Republican state enterprise) «Armored Repair Plant» based on July 2, 1976.

It is the only specialized enterprise in the Central Asian region, performing works and services in capital repairs and modernization of armored equipment.

The enterprise specializes on capital repairs and modernization of arms and military equipment and production of conversion equipment.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including income from production realization	Total profit	Labor efficiency, thousand tenge/ pers.
2011 fact	1 526 311	1 727 368	1 708 155	479 753	9 140
2012 fact	6 017 757	6 101 937	6 031 823	697 041	11 506
2013 fact	6 422 978	7 096 793	6 535 300	1 307 857	15 666

«Instrument-making plant «Omega» JSC

«Instrument-making plant «Omega» JSC is founded in 1972 and was a part of the Ministry of the ship-building industry of the USSR, specialized in area of production of systems and complexes for control of ship mechanisms, the equipment of intra ship communication, products of exact mechanics of ship instrument making.

At the enterprise the following types of productions are adjusted:

- the procuring
- the tool
- the metalworking

- the installation and assembly
- production of plastic and rubber products
- production of installations for production of drinking water.

Production and delivery of the wide nomenclature of spare parts for a rolling stock of the Kazakhstan railroad, details and knots for a rolling stock are organized.

The enterprise specializes on production of the railway equipment, details and knots for the rolling stock, special production and production of a dual purpose, AIC (agrarian and industrial complex) production.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

Name	Output	Income - IN TOTAL	including	Total profit	Labor efficiency, thousand tenge/ pers.
			income from production realization		
2011 fact	482 817	547 499	526 722	18 341	2 962
2012 fact	628 326	1 044 596	624 831	237 021	3 510
2013 fact	615 118	644 136	617 760	1 795	2 674

«SRI «Kazakhstan Engineering» LTD

«Uniform Center of Introduction of System of Management of Arms» LTD was transformed to the «Scientific Research Institute» Kazakhstan Engineering» LTD and accredited as the subject of scientific and scientific-technical activity; licenses for carrying out development and production, repair of ammunition, arms and military equipment, spare parts, components and devices to them are obtained; special materials, the equipment for their production, including installation, adjustment, modernization, installation, storage, repair and service.

Due to the extensive market and increase in demand the decision on development of the engineering direction in the format of EPC (M) contracts is made and it includes:

- development of the sphere of engineering services in internal market, with an export orientation;
- introduction (development and transfer) of new technologies;
- improvement of quality of services in the engineering sphere;
- development of own production potential.

№	Indicators	2012 - fact	2013 - fact
1	Income, in total	153 335	237 271
2	Expenses, in total	(154 670)	(273 611)
3	Financial result	(1 335)	(36 340)

«The Kazakhstan aviation industry» LTD

The enterprise is created for implementation of the project which is carried out in the following directions:

1. Service and assembly of a model range of planes of the company «CessnaAircraftCompany».
2. Maintenance and repair of helicopters of the Russian production.
3. Maintenance and repair of planes of front aircraft.
4. Service of planes of military transport aircraft.

«Kazakhstan Aselsan Engineering» LTD

«Kazakhstan Aselsan Engineering» LTD was created on April 18, 2011.

Founders of the joint venture are: «NC «Kazakhstan Engineering» JSC (50%), Turkish company ASELSAN (49%) and Committee of the industry of defence of Turkey (1%).

Activity of the joint venture is production of electron-optical devices.

Also the enterprise signed the Memorandum of understanding with «Eurocopter Kazakhstan Engineering» LTD within which the parties are ready to study possibility of installation on the EC-145 helicopters made by «Eurocopter Kazakhstan Engineering» LTD with the electron-optical equipment.

The management and quality system in aircraft, environment, professional safety and health, ISO 9001:2008, ISO 14001, AGAP-160, AGAP-2110, OHSAS 18001, AS9100 is introduced and functions.

In 2013 opening of plant on production of the electron-optical equipment is carried out.

«Thales Kazakhstan Engineering» LTD

«Thales Kazakhstan Engineering» LTD is created in May, 2009 in pursuance of an order of the Head of the state following the results of official visit to the French Republic in June, 2008.

Founders of joint venture are «NC «Kazakhstan Engineering» JSC - 50%, «Thales Kazakhstan» LTD - 40% (France), the company «Thalescommunication&security S.A.» - 10% (France).

The enterprise specializes on development, production and sale of the electronic equipment, systems and/or the software and providing the services connected with it; to production, sale and maintenance of radio and communication equipment for the defensive market.

«Indra Kazakhstan Engineering» LTD

«Indra Kazakhstan Engineering» LTD is created on June 28, 2011.

Founders of joint venture are: «NC «Kazakhstan Engineering» JSC (49%) and Spanish company «Indra Sistemas, S. A.» (51%).

Primary activities – production and maintenance of radio-electronic systems of defensive value on the basis of a transfer to the Kazakhstan part of modern technologies.

«Eurocopter Kazakhstan Engineering» LTD

«Eurocopter Kazakhstan Engineering» LTD is created in December, 2010.

Founders of the joint venture formed on a parity basis, are «NC «Kazakhstan Engineering» JSC and EADS - «Eurocopter» concern subsidiary.

The plant is equipped with workshops on service of mechanical knots, repair of products of sheet metal, repair of electric equipment and onboard radio electronics, repair of products from composite materials and blades, a workshop on repair of engines, the hydraulic equipment, rooms for work on maintenance and painting, an autonomous boiler room, warehouse.

Primary activities are:

- assembly, sale, maintenance of the helicopters EC-145;
- training of the personnel: flight and technical structure of potential customers.

«Kamaz Engineering» LTD

«Kamaz Engineering» LTD is created on May 31, 2005. The cofounder of the Company is «Kamaz» JSC.

«Kamaz Engineering» LTD is the Kazakhstan's first plant on assembly of cargo cars and special equipment on the basis of cars Kamaz. It is the leader on production of cargo cars in the Republic of Kazakhstan. Since the moment of creation of plant more than six thousand cars and special equipment which find the application in many branches of economy of the Republic, including in power structures, the Ministry of Emergency Situations, road construction, agriculture were made. The model range totals about 30 equipments of special and dual purpose.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

«ZIKSTO» JSC

«ZIKSTO» JSC is created by transformation of the state enterprise «Engineering Plant named after V.Kuibyshev» JSC.

The enterprise is on large railway knot city Petropavlovsk that creates favorable conditions for providing the enterprise with raw materials and materials, and also for shipment of finished goods.

The enterprise specializes on production of the freight cars, covered cars hoppers for transportation of grain, container carriers, capital repairs of cars and components to them, capital repairs and others types of repair of cars and components to them, production for oil and gas, power complexes, common industrial goods and consumer goods.

There are all necessary licenses and certificates for the production organization.
The quality management system of ISO 9001:2008 is introduced and functions.

PLANS FOR FUTURE PERIODS

Increase of cost of assets of the Company in 2014 to 77 107 million tenge is provided by the Development plan of the Company and it is planned at the expense of increase in cost of fixed assets, investments, IH financed from means of the Republican budget for implementation of investment projects of the Company, and also at the expense of own and raised funds within the bonded program of the Company.

Also Labor efficiency increase (the volume of made production on group of the Company / the planned (actual) number for the period) to level of 13,800 million tenge on the worker is planned:

Labor efficiency following the results of 2013 makes 12,8 million tenge on the worker. Increase of Labor efficiency of the enterprise of the Company will be carried out in connection with realization of the following directions: modernization of the operating enterprises, transfer of technologies; personnel professional development (training, retraining of personnel); R&D development on the basis of the existing enterprises.

Work on creation of the EPC-contractor will be carried out. In realization contracts service and the subsequent service of products is provided. It allows to increase service life and provide an integrated approach.

Modernization and production updating, and also creation of new workplaces is planned. Modernization, updating of production of the enterprises of the Company will be carried out in the following main directions:

- replacement of physically and obsolete equipment by acquisition of the high-tech equipment, specialized transport and mechanisms;
- transfer of technologies;
- reconstruction, capital repairs of production rooms and equipment, change of the scheme of an arrangement of sites, optimization of intra factory transport streams, building of new objects;
- production automation, acquisition of modern equipment and software.

INDEPENDENT AUDITOR'S REPORT

ADMINISTRATION CONFIRMATION OF LIABILITY FOR PREPARATION AND AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED IN 31 OF DECEMBER 2013

Management of «National Company «Kazakhstan Engineering» JSC (hereafter referred to as the Company) and its subsidiaries (hereafter referred to 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 all the reasonably available steps to receive Group asset protection;
- 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 «National Company «Kazakhstan Engineering» JSC on 5 March 2014.

Signed on behalf of management of the Group

B.C. Smagulov	A.K. Zhetenova	A.M. Burkitbayeva
Chairman	Managing Director	Chief accountant

5 March 2014
Astana, the Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To Shareholders and the Board of Directors of «National Company «Kazakhstan Engineering» JSC:

We have audited the attached consolidated financial statements of «National Company «Kazakhstan Engineering» JSC and its subsidiaries (hereinafter referred to as the Group), which include the consolidated statement of financial circumstances as at 31 of December 2012 and the consolidated statements of comprehensive income, changes h equity and cash flow for the year ended on that date, and a summary of basic principles of accounting policies and other explanatory information.

Management responsibility for consolidated financial statements

Management is responsible for the preparation and faithful representation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for creation of internal control system that the management determines to be necessary for 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.

Procedure selection is based on the auditor's assumptions, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

Those risk assessments includes appraisal of internal control system relevant to the preparation and truthfulness of consolidated financial statements in order to design audit procedures that are appropriate in the present circumstances, but not for expressing an opinion on the effectiveness of the internal control system.

An audit also includes evaluating the appropriateness of used accounting policies and the reasonableness of estimated figures made by the management, as well as evaluation of the overall presentation of the consolidated financial statements. We believe that the obtained audit evidence is sufficient and appropriate basis for our opinion.

OPINION

In our opinion, the consolidated financial statements in all material respects accurately present the financial circumstances of the Group as at 31 of December 2013 and the results of its operations and its cash flows for the year ended on that date, in accordance with International Financial Reporting Standards.

<table>
<tr><td rowspan="2">«Deloitte» LLP
State license
on auditing of the
Republic of Kazakhstan N 0000015,
MFU-2 form issued by the
Ministry of Finance of the Republic of Kazakhstan
September 13, 2006.</td><td>Dulat Taituleyev
Audit Engagement Partner,
Qualified Auditor
Certificate of competency
No. MF-0000095
Dated August 27, 2012
The Republic of Kazakhstan</td></tr>
<tr><td>Nurlan Bekenov
General director
«Deloitte» LLP</td></tr>
</table>

March 5, 2014
Almaty, the Republic of Kazakhstan

	Footnotes	31 of December 2013	31 of December 2012
ASSETS			
LONG-TERM ASSETS:			
Fixed assets	6	13,368,531	10,146,158
Fictitious asset	7	347,467	212,306
Investments in joint ventures	9	3,057,799	2,775,260
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
Property Investment		35,674	45,196
Long-term investments		4,417	4,417
Current assets		19,867,917	15,952,079
TOTAL 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

	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

B.C. Smagulov	A.K. Zhetenova	A.M. Burkitbayeva
Chairman	Managing Director	Chief accountant

5 March 2014

Astana, the Republic of Kazakhstan

The notes on pages 78-131 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 68-70.

	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	(4,126,931)	(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

B.C. Smagulov	A.K. Zhetenova	A.M. Burkitbayeva
Chairman	Managing Director	Chief accountant

5 March 2014

Astana, the Republic of Kazakhstan

The notes on pages 78-131 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 68-70.

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to Parent of the Company	Non-controlling interests	Total capital
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	
Fair value adjustment on below market interest bearing loan received from Shareholder, less deferred tax effect of thousands tenge	22	-	97,717	-	97,717	-	
Measurement of debt component of preferred shares		-	-	(7,703)	(7,703)	-	
Dividends	19, 21	-	-	(678,393)	(678,393)	(17,586)	
At 31 December 2013		12,101,802	841,018	10,005,198	22,948,018	631,934	

B.C. Smagulov	A.K. Zhetenova	A.M. Burkitbayeva
Chairman	Managing Director	Chief accountant

5 March 2014

Astana, the Republic of Kazakhstan

The notes on pages 78-131 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 68-70.

	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)

	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

B.C. Smagulov	A.K. Zhetenova	A.M. Burkitbayeva
Chairman	Managing Director	Chief accountant

5 March 2014

Astana, the Republic of Kazakhstan

The notes on pages 78-131 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 68-70.

Notation of the Consolidated Financial Statements

1. GENERAL INFORMATION

«National Company «Kazakhstan Engineering» JSC (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 («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 IFRS 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 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.

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 and 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.

Recognition 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.

<u>Offsets</u>

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.

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 submitted for the Group management responsible for decision-making on operational activity for purposes of resources allocation and results estimation on segments, is of types of sold goods and rendered services in terms of operations with specific products and double-purpose goods, civilian industry product, and service rendering (engineering). In order to get reporting segments of the Group none of its operational segments were combined, with the exception of other goods and services that separately do not exceed quantitative limits.

In particular, reporting segments of the Group are presented in the following way:

- Specific products and double-purpose goods;
- Civilian industry product;
- Services (engineering).

Principles of accounting policy of reporting segments do not differ from principles of accounting policy of the Group, listed in Note 3.

The Group management analyses only revenue from goods and services realization in terms of segments. This index is provided for the management responsible for decision-making on operational activity for purposes of resources allocation and estimation of results on segments.

Analysis of revenue of the Group from constant activity on segments is as follows:

	2013	2012
Specific products and double-purpose goods	13,559,193	28,129,393
Civilian industry product	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
Specific products and double-purpose goods	13,559,193	28,129,393
Services (engineering)	12,540,652	9,780,843
Civilian industry product:		
- 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.

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:

	December 31, 2013	December 31, 2012
Kazakhstan	41,282,905	48,627,926
CIS states	2,911,327	2,818,855
Others	577,200	706,833
	44,771,432	52,153,614

6. BASIC ASSETS

	Land	Building and constructions	Machines, equipment and means of transportation	Other assets	Unreserved construction	Total
Initial or basic cost:						
As of January 1, 2012	171,847	4,576,633	5,514,292	483,361	174,203	10,920,336
Revenues	39,957	196,601	735,462	177,015	1,163,512	2,312,547
Revenues on financial lease	-	-	1,214,166	-	-	1,214,166
Transfer from stocks	-	18,507	48,001	-	6,205	72,713
Internal transfer	-	305,037	(375)	-	(304,662)	-
Lack of control over affiliated undertaking	-	-	(15,846)	-	-	(15,846)
Disposal	(16,529)	(75,769)	(92,122)	(24,098)	-	(208,518)
As of December 31, 2012	195,275	5,021,009	7,403,578	636,278	1,039,258	14,295,398
Revenue	3,772	270,143	613,183	191,833	2,454,401	3,533,332
Transfer from stocks	-	68,777	89,785	7,202	356,305	522,069
Internal transfer	(5,456)	608,002	206,414	75,523	(884,483)	-
Transfer to fixed for-sale assets	-	-	(5,029)	(2)	-	(5,031)
Disposal	-	(9,193)	(98,705)	(15,218)	(401)	(123,517)
As of December 31, 2013	193,591	5,958,739	8,209,226	895,616	2,965,080	18,222,251
Accumulated depreciation and impairment:						

As of January 1, 2012	-	(1,035,796)	(2,408,256)	(177,500)	-	(3,621,552)
Lack of control over subsidiary enterprise	-	(119,831)	(440,325)	(66,894)	-	(627,050)
Accrued cost per year	-	-	8,543	-	-	8,543
Disposal	-	20,553	63,153	7,113	-	90,819
As of December 31, 2012	-	(1,135,074)	(2,776,885)	(237,281)	-	(4,149,240)
Accrued cost per year	-	(116,476)	(534,280)	(144,671)	-	(795,427)
Disposal	-	7,669	73,303	9,975	-	90,947
As of December 31, 2013	-	(1,243,881)	(3,237,862)	(371,977)	-	(4,853,720)
Balance value:						
As of December 31, 2013	193,591	4,714,857	4,971,364	523,639	2,965,080	13,368,531
As of December 31, 2012	195,275	3,885,935	4,626,693	398,997	1,039,258	10,146,158

As of December 31, 2013 the incomplete construction includes the following capital costs:

The expenses on overhaul of production buildings of workshops and warehouses of «Semey Engineering» JSC affiliated undertaking for the value of 1,431,695 ths. tenge (December 31, 2012:

821,322 ths. tenge);

Expenses on «Mastering of foundry on gasified models» and «Project of non-woven fabric» projects in «Tynys» JSC affiliated undertaking for the total value of 348,867 ths. tenge (December 31, 2012: 209,231 ths. tenge); and

Expenses on «Aerotechnical center in Astana» project in «Kazakh Aviation Industry» LLP affiliated undertaking for the value of 400,698 ths. tenge (December 31, 2012: a zero).

As of December 31, 2012 the basic assets with the balance cost of 1,708,249 thousands tenge were pledged as certain loans received by the Group. As of December 31, 2013 the Group paid of the bank loans (Note 22), however, the basic assets with the balance cost of 172,228 thousands tenge were not unpledged.

As of December 31, 2013 the balance cost of basic assets received from financial lease is accounted for 1,055,743 thousands tenge (December 31, 2012: 1,660,059 thousands tenge). This equipment is acting as mortgage security under obligations on financial lease.

The cost of fully depreciated fixed assets as of December 31, 2013 and 2012 is accounted for 751.346 ths. tenge and 621.358 ths. tenge respectively.

The balance value of the temporarily idle fixed assets as of December 31, 2013 is amounted to 276.148 ths. tenge (December 31, 2012: 123.485 ths. tenge).

7. INTANGIBLE ASSETS

	Software	Others	Total
Initial or basic cost:			
As of January 1, 2012	146,167	103,432	249,599
Revenue	103,443	3,698	107,141
Disposal	(182)	(36,245)	(36,427)
Lack of control over affiliated undertaking	(76)	-	(76)
As of December 31, 2012	249,352	70,885	320,237
Revenue	79,792	10,446	90,238
Transfer from stocks	-	80,336	80,336
Internal transfers	(47,753)	47,753	-
As of December 31, 2013	281,391	209,420	490,811
Accumulated depreciation and impairment:			
As of January 1, 2012	(62,057)	(22,763)	(84,820)
Amortization accrued per year	(11,992)	(11,291)	(23,283)
Disposal	172	-	172
As of December 31, 2012	(73,877)	(34,054)	(107,931)
Depreciation accrued per year	(21,432)	(13,981)	(35,413)
As of December 31, 2013	(95,309)	(48,035)	(143,344)
Balance cost:			
As of December 31, 2013	186,082	161,385	347,467
As of December 31, 2012	175,475	36,831	212,306

8. AFFILIATED UNTERDAKINGS

Name	Type of business	Country of residence	Ownership interest	
			As of December 31	As of December 31
			2013	2012
«Automotive equipment repair plant 811 KI» JSC	Performance of repair work on defense-industrial sector equipment (DIS), moto assemblies and units; equipment modernization	Kazakhstan	100%	100%
JSC «Automotive equipment repair plant 832 KI» JSC	Performance of repair work on automotive engineering.	Kazakhstan	100%	100%
«Plant named after S.M. Kirov» JSC	Navigation systems, radio stations, control boards for railway complex; controlling units and automated machines for oil and gas sectors	Kazakhstan	84%	84%
«Kirov Machine Building Plant» JSC	Marine underwater weapons and hydraulics and combustion automation products for marine vessels; pneumatic hammers for the mining industry; service parts for railway complex.	Kazakhstan	98%	98%
«Munaymash» JSC	Oil well pumps for the oil and gas section, consumer goods.	Kazakhstan	52%	52%
«Research Institute Gidropribor» JSC	Design and research work, as well as production of sea and river boats, ships, vessels and other floating facilities and underwater vehicles, ground and airial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects.	Kazakhstan	93%	93%
Instrument Makhg Plant «Omega» JSC	Water purification plants «Taza Suu»; spare parts and components for railway; digital exchange and components, telephones, consumer goods.	Kazakhstan	99%	99%
«Petropavlovsk heavy machine plant» JSC	Special machinery for oilfield, vessels working under pressure, tools for repair and service of rail road, parts of rolling stock, production and sales of specialized products, production and modernization of up-to-date samples of specialized machinery	Kazakhstan	100%	100%
«Semey engineering» JSC	Repair of MIC equipment; engines, transport machines	Kazakhstan	100%	100%
«Semey Machine Building Plant» JSC	Full-track carriers, access plates for freight wagons, repair of engineering equipment.	Kazakhstan	99%	99%
«Kuzet» LLP	Security services	Kazakhstan	-	100%
«Tynys» JSC	Medical equipment, gas equipment, air products, PET pipes, firefighting equipment	Kazakhstan	99%	99%

«Ural Plant «Zenit» JSC	Boats and ships for the Naval forces of the Republic of Kazakhstan, design and production of steel structures, spare parts for oil and gas industry.	Kazakhstan	95%	95%
«KazEngElectronics» JSC	Research and work in the field of radio electronics, creation of data management systems, development and implementation of programs and technologies.	Kazakhstan	100%	100%
«Research Studies Institute «Kazakhstan engineering» JSC (former «Joint center of armament management systems» LLP)	Design and development of new types of specialized products for the defense industry enterprises	Kazakhstan	100%	100%
«Kazakhstan aviation industry» LLP	Repair and maintenance of aircraft	Kazakhstan	100%	100%

In August 2013 the Group implemented 65% participation interest in an inactive affiliated undertaking «Kuzet» JSC (Note 37).

In October 1, 2012 the Group implemented 51% participation interest in «Kazakhstan Distribution Engineering» JSC. As the result the Group started to take into account the rest of the participation interest within investments in dependent undertakings (Note 10 and 37).

«Munaymash» JSC is the affiliated undertaking with the essential non-controlling ownership interest. The non-controlling ownership interests of other affiliated undertakings are preferred shares.

The affiliated undertakings in incomplete ownership with the essential non-controlling interest are given below:

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 «Munaymash» JSC that has significant non-controlling interests is set out below. The summarised financial information below represents amounts before exclusion of transactions within the Group.

	December 31, 2013	December 31, 2012
Current assets	1,386,670	971,012
Long-term assets	1,444,929	1,585,028
Current debt	(831,466)	(684,814)
Long-term liabilities	(1,007,876)	(1,021,997)
Equity that belongs to shareholders of the parent company	516,380	441,947
on-controlling interests	475,877	407,282

	2013	2012
Revenue	3,303,863	2,466,908
Expenses	(3,120,087)	(2,391,325)
Profit and 1 year total return	183,776	75,583
Belongs to:		
Shareholder of the parent company	95,639	39,334
Non-controlling interests	88,137	36,249
Profit and 1 year total return	183,776	75,583
Dividends paid to non-controlling interests	17,586	48,040
Net cash flow/(disposal) from:		
- operating activity	259,409	(44,317)
- investment activity	(15,939)	3,215
- financial activity	(206,511)	(1,506)
Net cash flow/(disposal)	36,959	(42,608)

9. INVESTMENTS IN JOINT VENTURES

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

Name	Principal activity	Country	Ownership share		Fair value
			31 December		
			2013	2012	
«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	Present value 1 January 2013	Contributions/ (received dividends)	Share of profit/ (loss)	Present value 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	Present value 1 January 2013	Contributions/ (received dividends)	Share of profit/(loss)	Present value 31 December 2013
«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

The total financial information on each essential joint venture of the Group is given below. The total financial information given below includes the amounts provided in financial statements of the essential joint ventures of the Group which were 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	(1,816,974)	(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

At 31 December 2013	«Eurocopter Kazakhstan engineering» LLP	«Thales Kazakhstan Engineering» LLP	«Kazakhstan ASELSAN engineering» LLP
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	-	-

At 31 December 2013	«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	«Eurocopter Kazakhstan engineering» LLP	«Thales Kazakhstan Engineering» LLP	«Kazakhstan ASELSAN engineering» LLP
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	-	-

Throughout 2013 the Company admitted the correction with fair value on given loan of «Kazakhstan ASELSAN Engineering» LLP within the investments for the value of 147,566 ths. tenge (2012: «Kazakhstan ASELSAN Engineering» LLP - 72,991 ths. tenge) (Note 16).

10. INVESTMENTS IN DEPENDENT UNDERTAKINGS

The Group's investments in dependent undertakings are as follows:

Name	Principal activity	Country	Ownership share 31 December		Fair value
			2013	2012	
«ZIKSTO» JSC	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
«KAMAZ-Engineering» JSC	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
«Kaz-ST Engineering Bastau» LLP	Investment holding activity and provision of defence, engineering services	Kazakhstan	49%	49%	Not publicly traded
«KAMAZ-Semey» LLP	Commercial activity	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
«ZIKSTO» JSC	700,013	-	57,230	757,243
«MBM-Kirovets» LLP	355,576	-	(10,600)	344,976
«KAMAZ-Engineering» JSC	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
«Ulan» JSC	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
«ZIKSTO» JSC	844,685	(71,664)	(73,008)	700,013
«MBM-Kirovets» LLP	354,560	(2,000)	3,016	355,576
«KAMAZ-Engineering» JSC	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
«Ulan» JSC	17,809	-	-	17,809
«KAMAZ-Semey» LLP	-	-	-	-
«Kazakhstan engineering Distribution» LLP	-	995	(995)	-
	1,656,217	(87,015)	(57,386)	1,511,816

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

At 31 December 2013	JSC «ZIKSTO»	«MBM-Kirovets» LLP	JSC «KAMAZ-Engineering»	Other dependent undertakings
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 dependent undertakings	-	-	30,358	-

At 31 December 2012	JSC «ZIKSTO»	«MBM-Kirovets» LLP	JSC «KAMAZ-Engineering»	Other dependent undertakings
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	JSC «ZIKSTO»	«MBM-Kirovets» LLP	JSC «KAMAZ-Engineering»	Other dependent undertakings
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 dependent undertakings	71,664	2,000	14,164	182

11. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Advances paid to suppliers for 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.

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 resale	382,160	420,635
Other	-	96,163
	14,053,346	11,195,447
Against the reserve on non-liquid 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. RADE 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)

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. CASH RESTRICTED

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

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 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 amortized 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 amortized 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%).

	31 December 2013	31 December 2012
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, «Munaymash» JSC, declared dividends for 2012 of 17,586 thousand tenge (2012: 48,040 thousand tenge for 2011) payable to non-controlling interests.

22. LOANS

	Maturity	Interest rate	31 December 2013	31 December 2012
Secured loans				
«Halyk Bank of Kazakhstan» JSC	November 2016	8%-16%	-	918,527
«BTA Bank» JSC	January 2015	8%-12.54%	-	853,913
			-	1,772,440
Unsecured loans				
«SWF «Samruk-Kazyna» JSC			-	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

<u>«SWF «Samruk-Kazyna» JSC</u>

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

23. DEBT SECURITIES ISSUED

	Maturity	Coupon rate	31 December 2013	31 December 2012
Local bonds issued at a price of:	6 November 2015	5%	4,534,000	4,534,000
95.2341% - Tranche 1	6 November 2015	5%	1,200,000	-
96.4613% - Tranche 2	6 November 2015	5%	1,000,000	-
96.9239% - Tranche 3	6 November 2015	5%	1,885,000	-
97.3266% - Tranche 4	6 November 2015	5%	1,765,000	-
97.8540% - Tranche 5	3 December 2016	4.55%	30,812,000	
Eurobonds issued at a price of 100%				
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).

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

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

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
	32,207,362	42,372,771
Revenue from finished goods sale	12,540,652	9,780,843
Revenue from rendering services	23,418	-
Other	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).

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

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).

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)

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

Profit/(loss) from discontinued operations	9 months ended 1 October 2012
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 protection

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.

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 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.

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.

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

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.

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	-
Financial liabilities				-
Debt securities issued	41,518,158	-	-	41,518,158
Finance lease obligations	-	1,006,280	-	1,006,280

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
«NC «KazMunaiGas» JSC	780,122	19,957
«NC «Kazakhstan Temir Zholy» JSC	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
«ZIKSTO» JSC	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

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	2,441,415

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

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
«Aviarepair plant No.405» JSC	2,558,234	573,601
«Elkam» LLP	1,940,593	-
«KAMAZ-Engineering» JSC	406,986	309,900
«NC «Kazakhstan Temir Zholy» JSC	325,993	204,532
«NC «KazMunaiGas» JSC	113,329	42,514
«Samruk Energy» JSC	95,783	53,278
«Kaz-ST Engineering Bastau» LLP	57,986	-
«BTA Bank» JSC	36,467	8,619
«Samruk Kazyna-Contract» LLP	26,584	6,576
«Kazakhtelecom» JSC	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	14,697,805

Finance income (Note 34)

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

Finance costs (Note 35)

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

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.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