JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

Separate financial statements
for the year ended 31 December 2016

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

CONTENT

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Management of JSC Kazakhstan Engineering National Company (the "Company") is responsible for the preparation of the separate financial statements that present fairly the financial position of the Company as at 31 December 2016, and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the separate 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company'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 Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the separate financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with IFRS and the legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other.

The separate financial statements of the Company for the year ended 31 December 2016 were approved and authorised for the issue by management of the Company on 18 March 2017.

On behalf of the management of the Company:

Idrissov E.S.	**Mynsharipova S.N.**	**Arkenova U.N.**
Chairman	**Deputy Chairman**	**Acting Chief accountant**

18 March 2017
Astana, the Republic of Kazakhstan

Deloitte.

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Republic of Kazakhstan

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INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

We have audited the separate financial statements of Joint Stock Company Kazakhstan Engineering National Company (the "Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in second paragraph of Bases for Qualified Opinion section, and possible effects of matters described in first paragraph of Bases for Qualified Opinion section of our report, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Bases for Qualified Opinion

1) As discussed in the annual separate financial statements for 2012 the Company made a decision to measure investments in the subsidiaries at their revalued amount at the date of their contribution to share capital of the Company (5 March 2004). This adjustment of 3,330,650 thousand tenge was recognised in the separate statement of changes in equity for 2012. We were not able to obtain sufficient appropriate audit evidence as to the adjusted value of the Company's investments in subsidiaries as at the date of the contribution. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

2) As disclosed in Note 6 to the annual separate financial statements for 2014, during 2014 the Company contributed additional capital, in the form of transferring assets, to certain subsidiaries at a revalued amount upon transfer. As disclosed in Note 24 to the annual separate financial statements for 2014, the difference between carrying value and the amount of contribution to subsidiaries of 552,501 thousand tenge was recorded in the separate statement of profit or loss and other comprehensive income, which constitutes a departure from IFRS, which requires that income is recognized in the separate statement of profit or loss and other comprehensive income only in the event that the transaction results in an increase in economic benefits. Our opinion on the separate financial statements for the current year is also modified because of the effect of this matter on the carrying value of investment in the subsidiaries and accumulated deficit as at 31 December 2016.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the separate financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

As described in Note 17 to the separate financial statements, 100% of the Company's sales for the year ended 31 December 2016 were to related parties. Our opinion is not modified in respect of this matter.

We draw attention to Note 3 to the separate financial statements, which describes that the separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. The Company also prepares consolidated financial statements of the Company and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved by management on 3 March 2017. Our opinion is not qualified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Alua Yessimbekova
Engagement Partner
Certified public accountant
New Hampshire, USA
License №07348
dated 12 June 2014

Roman Sattarov
Qualified auditor
of the Republic of Kazakhstan
Qualification certificate
No. MF-0000149
dated 31 May 2013
Republic of Kazakhstan

DELOITTE, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

18 March 2017
Astana, the Republic of Kazakhstan

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	534,639	582,711
Intangible assets		162,909	193,241
Investments in subsidiaries	6	17,266,546	13,354,908
Investments in associates and joint ventures	7	5,172,249	4,661,696
Other financial assets	8	-	260,000
Deferred tax assets	22	3,017,109	2,775,280
Other non-current assets		36,532	5,185
Total non-current assets		26,189,984	21,833,021
CURRENTS ASSETS:			
Inventories		33,847	33,696
Trade and other accounts receivable	9	6,295,247	5,793,124
Income tax prepaid		1,212,288	795,644
Short-term financial investments		-	27,752,319
Other financial assets	8	12,687,048	16,274,573
Advances paid to related parties	26	4,514,641	5,623,310
Other current assets	10	8,153,164	3,987,720
Cash and cash equivalents	11	6,242,373	14,175,232
		39,138,608	74,435,618
Assets classified as held for sale		74,643	143,980
Total current assets		39,213,251	74,579,598
TOTAL ASSETS		65,403,235	96,412,619
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	12	21,476,802	21,476,802
Additional paid-in-capital	13	412,406	412,406
Accumulated deficit		(5,060,232)	(5,461,891)
Total equity		16,828,976	16,427,317
NON-CURRENT LIABILITIES:			
Loans	14	4,599,158	-
Employee benefits obligations and other long-term liabilities		2,438	2,446
Total non-current liabilities		4,601,596	2,446

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2016
(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
CURRENT LIABILITIES:			
Loans	14	22,715,124	68,036,056
Trade and other payables	15	5,099,682	1,929,708
Income tax payable		-	1,680
Other taxes payable	16	1,852,310	1,275,805
Employee benefits obligations		756	756
Advances received from related parties	26	13,586,652	8,409,878
Other current liabilities		718,139	328,973
Total current liabilities		43,972,663	79,982,856
Total liabilities		48,574,259	79,985,302
TOTAL EQUITY AND LIABILITIES		65,403,235	96,412,619

On behalf of the management of the Company:

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

18 March 2017
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Notes	2016	2015
REVENUE	17	55,579,426	46,910,162
COST OF SALES	18	(53,389,816)	(45,741,385)
GROSS PROFIT		2,189,610	1,168,777
Administrative expenses	19	(2,606,350)	(1,741,786)
Selling expenses		(17,110)	(33,979)
Other (expense)/income, net		(128,804)	732,339
Foreign exchange loss, net		(86,677)	(14,404,900)
Dividends income		787,502	4,195,247
Finance income	20	4,479,353	7,982,638
Finance costs	21	(4,457,694)	(2,860,985)
PROFIT/(LOSS) BEFORE TAX		159,830	(4,962,649)
INCOME TAX BENEFIT	22	241,829	1,799,218
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		401,659	(3,163,431)

On behalf of the management of the Company:

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

18 March 2017
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Charter capital	Additional paid-in capital	Accumulated deficit	Total
As at 1 January 2015	21,476,802	412,406	(2,158,124)	19,731,084
Loss and total comprehensive loss for the year	-	-	(3,163,431)	(3,163,431)
Dividends	-	-	(140,336)	(140,336)
As at 31 December 2015	21,476,802	412,406	(5,461,891)	16,427,317
Profit and total comprehensive income for the year	-	-	401,659	401,659
As at 31 December 2016	21,476,802	412,406	(5,060,232)	16,828,976

On behalf of the management of the Company:

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

18 March 2017
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Notes	2016	2015
OPERATING ACTIVITY:			
Profit/(loss) before income tax		159,830	(4,962,649)
Adjustments for:			
Amortisation and depreciation	19	115,244	117,298
Foreign exchange loss, net		86,677	14,404,900
Recovery of allowance for doubtful accounts	19	(328,952)	(330,181)
Allowance for impairment of investments		-	124,460
Gain on disposal of property, plant and equipment		-	3,805
Unused vacation provision and other remunerations	19	177,571	166,339
Dividends income		(787,502)	(4,195,247)
Finance income	20	(4,479,353)	(7,982,638)
Finance costs	21	4,457,694	2,860,985
Cash flows from operating activity before changes in working capital		(598,791)	207,072
Changes in working capital and other balances:			
Trade and other accounts receivables		(1,877,587)	(186,033)
Inventories		(151)	(2,661)
Other current assets		(1,444,290)	(8,491,253)
Trade and other payables		3,093,077	1,865,152
Other taxes payable		158,181	1,196,422
Other current liabilities		5,303,380	8,508,595
Cash generated generated by operating activity		4,633,819	3,097,294
Interest paid		(3,059,511)	(2,762,395)
Net cash received from operating activity		1,574,308	334,899
INVESTING ACTIVITY:			
Repayment of loans given		4,184,970	15,090,469
Loans given		(508,225)	(13,397,053)
Placement of short-term investments		(17,973,250)	(7,208,796)
Withdrawal of short-term investments		44,897,541	24,618,181
Contributions to charter capital of joint ventures and subsidiaries	6, 7	(2,411,000)	(4,833,000)
Dividends received		528,455	900,096
Interest received		2,066,181	2,047,893
Acquisition of property, plant and equipment		-	(10,029)
Other inflows		61,380	-
Net cash generated by investing activity		30,846,052	17,207,761

SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Notes	2016	2015
FINANCING ACTIVITY:			
Loans received		26,923,159	-
Repayment of debt securities	14	(67,138,000)	(10,384,000)
Dividends paid		-	(140,336)
Net cash used in financing activity		(40,214,841)	(10,524,336)
CHANGE IN CASH AND CASH EQUIVALENTS		(7,794,481)	7,018,324
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	14,175,232	7,133,194
Effects of exchange rate changes on the balance of cash held in foreign currencies		(138,378)	23,714
CASH AND CASH EQUIVALENTS, at the end of the year	11	6,242,373	14,175,232

On behalf of the management of the Company:

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

18 March 2017
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements

1. GENERAL INFORMATION

Joint Stock Company Kazakhstan Engineering National Company ("the Kazakhstan Engineering" or the "Company") was incorporated based on Resolution of the Government of the Republic of Kazakhstan No. 244 dated 13 March 2003 with a purpose to enhance management system of the military and industrial complex of the Republic of Kazakhstan. The Company was registered as a legal entity with the Department of Justice of Astana on 16 April 2003 (registration certificate No.13659-1901-AO). On 20 May 2005, the Company was re-registered by the Department of Justice of Astana (registration certificate No.13659-1901-AO).

As at 31 December 2016, the Company's sole shareholder is JSC Sovereign Wealth Fund Samruk-Kazyna (the "Shareholder"). From 15 June 2010, 100% of its shares were in trust management of Ministry of Defence of the Republic of Kazakhstan. On 23 December 2016, under the decree of the Government of the Republic of Kazakhstan, 100% of its shares were transferred for trust management to Ministry of Defence and Aerospace industry 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 is:

- 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 for supply with internal needs and export;
- production and import of armament, military technics 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.

In May 2015, the Company was appointed as a single operator of the state defence orders of the Republic of Kazakhstan.

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

Number of employees of the Company as at 31 December 2016 was 87 people (31 December 2015: 87 people).

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the tenge depreciated significantly against major foreign currencies.

Management of the Company is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and the separate financial position of the Company is at this stage difficult to determine.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD

Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation;*
- Annual Improvements to IFRS 2012-2014 Cycle.

The application of new and revised standards has had no significant effect on the Company's separate financial statements.

New and revised IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[2];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[2];
- IFRS 16 Leases[3]
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[2];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 7 – *Disclosure Initiative*[1];
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[2];
- Amendments to IAS 40 – *Transfers of Investment Property*[2];
- Annual Improvements to IFRS 2014-2016 Cycle.

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets.

The management of the Company anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management is still in the process of assessing the full impact of the application of IFRS 15 on the Company's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. The management does not intend to early apply the standard and intend to use the full retrospective method upon adoption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Statement of compliance with IFRS

These separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. Subsidiaries were not consolidated to these separate financial statements. Investments to subsidiaries, associates and joint ventures were measured at cost less impairment losses. These separate financial statements shall be read in conjunction with the consolidated financial statements, which were authorized for issue by the Company management on 3 March 2017.

The consolidated financial statements of JSC Kazakhstan Engineering National Company prepared in accordance with IFRS were made available for public use by the Company operating under the legislation of the Republic of Kazakhstan. The consolidated financial statements are available at the head office located at the following address: 10, Kunayev Street, 010000 Astana, the Republic of Kazakhstan.

Basis of measurement

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

Foreign currency transactions

In preparing the separate financial statement of the Company, 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 separate 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 Company within the foreseeable future. Management believes that the Company will be able to realize its assets and discharge its liabilities in the normal course of the business.

As at 31 December 2016, current liabilities of the Company exceeded its current assets by 4,759,412 thousand tenge (31 December 2015: 5,403,258 thousand tenge). This is due to the need to repay a portion of the loan to JSC Halyk Bank of Kazakhstan in August 2017.

Management of the Company believes that the Company will continue as a going concern in the foreseeable future due to the following:

- In May 2015, the Company was appointed as a single operator of the state defence orders of the Republic of Kazakhstan (Note 1). The State defence orders of the Republic of Kazakhstan is expected to grow in 2017;
- The Company expects cash inflows from the disposal of assets held for the sale in accordance with its plan of privatization, and by involving strategic partners, with the purpose of increasing the effectiveness of the Company;
- The Company expects to repay its loan to JSC Halyk Bank of Kazakhstan from cash flows of operating activities and cash inflows from the sale of the above-mentioned assets.
- The Company is negotiating additional financing facilities with financial institutions during 2017.

Property, plant and equipment

Property, plant and equipment are stated at cost less any 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 expenses directly related to acquisition of a respective 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 Company'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, carrying 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 in the separate financial statement.

Group of assets	**Average useful lives**
Buildings and constructions	8 - 100 years
Machinery and equipment	3 - 20 years
Vehicles	3 - 10 years
Other assets	3 - 20 years

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

Intangible assets

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

Impairment of tangible and intangible assets

At the end of each reporting period, the Company 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.

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment losses these separate financial statements.

Investments in associates and joint ventures

Investments in associates and joint ventures are measured at cost less impairment losses in these separate financial statements. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor a joint venture. 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.

Recognition of financial instruments

Financial assets and financial liabilities are recognised in the separate financial statements when the Company 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.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. 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.

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 Company 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 separate 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.

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-organization, 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 instrument

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 Company are recognised at the proceeds received, net of direct issue costs.

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

Financial assets and financial liabilities may be offset and the net amount be shown in the separate statement of financial position only when there is a legal right to offset the recognised amounts and the Company 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 Company 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 Company 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 separate statement of comprehensive income. The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 rendering of services is recognized by stage of completion of contract activity at the end of the reporting date. Stage of completion measured on the proportion of contracts 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. If the financial outcome of the contract cannot be estimated reliably, the revenue is recognized 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.

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 separate 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 separate statement of financial position under trade and other receivables.

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 Company makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 171,443 tenge per month in 2016 (2015: not more than 160,230 tenge). Payments to pension funds deducted from employees' salaries and are included in the total cost of salaries and deductions in the separate statement of profit or loss and other 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 separate 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 Company'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 separate 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.

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 Company 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 Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 separate 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 separate 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the separate financial statements.

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 partnerships 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 7).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

The Company 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 separate financial statements.

Impairment of assets

As of 31 December 2016, the Company made an assessment of investments for the existence of impairment indicators in accordance with IAS 36 *Impairment of Assets*. Indicators were identified due to the operating losses in JSC Semey Engineering, Kazakhstan Aviation Industry LLP, JSC Semipalatinsk Machinery Construction Plant and JSC Kirov Machinery Plant. Based on the results of the impairment indicators analysis, the Company management held impairment test using its best estimates. As a result of the test no impairment has identified.

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 Company's management believes that the Company has paid or accrued all the applicable taxes. In unclear cases, the Company has accrued tax liabilities based on management's best estimate. Company 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 2016. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

(in thousands of tenge)

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in progress	Total
Initial or deemed cost:						
As at 1 January 2015	31,422	405,199	268,705	176,379	8,033	889,738
Additions	-	-	-	9,636	393	10,029
Internal movement	-	-	393	-	(393)	-
Disposals	-	-	(17,697)	(6,230)	-	(23,927)
As at 31 December 2015	31,422	405,199	251,401	179,785	8,033	875,840
Additions	-	36,044	-	798	-	36,842
As at 31 December 2016	31,422	441,243	251,401	180,583	8,033	912,682
Accumulated depreciation and impairment:						
As at 1 January 2015	-	(114,826)	(53,444)	(52,618)	-	(220,888)
Depreciation charge for the year	-	(15,547)	(38,552)	(32,867)	-	(86,966)
Disposals	-	-	8,806	5,919	-	14,725
As at 31 December 2015	-	(130,373)	(83,190)	(79,566)	-	(293,129)
Depreciation charge for the year	-	(16,748)	(37,292)	(30,874)	-	(84,914)
As at 31 December 2016	-	(147,121)	(120,482)	(110,440)	-	(378,043)
Carrying value:						
As at 31 December 2016	31,422	294,122	130,919	70,143	8,033	534,639
As at 31 December 2015	31,422	274,826	168,211	100,219	8,033	582,711

Cost of fully depreciated property, plant and equipment as at 31 December 2016 and 2015 was 52,822 thousand tenge and 18,108 thousand tenge, respectively.

As at 31 December 2016 and 2015, the Company had property, plant and equipment with the carrying value of 168,532 thousand tenge and 181,897 thousand tenge, respectively, which were removed from active service and put into conservation. The Company management believes that these property, plant and equipment are not impaired as their availability allows the Company to maintain licenses required to carry out its principal activity.

As of 31 December 2016 and 2015, the Company did not have pledged property, plant and equipment.

(in thousands of tenge)

6. INVESTMENTS IN SUBSIDIARIES

	31 December 2016	31 December 2015
Kazakhstan Aviation Industry LLP	7,173,559	5,005,648
JSC Semey Engineering	3,795,885	2,864,053
JSC Kirov Machinery Plant	1,804,110	1,804,110
JSC Petropavlovsk heavy machinery construction plant	1,072,115	873,480
R&D center Kazakhstan Engineering LLP	1,008,844	1,008,843
JSC Tynys	887,891	484,162
JSC S.M. Kirov Plant	559,604	493,386
JSC Semipalatinsk Machinery Construction Plant	508,111	437,472
JSC KazEng Electronics	429,789	429,789
JSC Omega Instrument Making Plant	243,698	144,472
JSC Munaymash	212,567	212,567
JSC Uralsk Plant Zenith	120,637	120,638
JSC Research Institute Hydropribor	102,402	102,402
JSC 811 Motor-repair Plant KE	90,106	90,106
JSC 832 Motor-repair Plant KE	-	71,689
	18,009,318	14,142,817
Less: allowance for impairment	(742,772)	(787,909)
	17,266,546	13,354,908

During 2016, the Company made additional contribution to Kazakhstan Aviation Industry LLP in the amount of 1,911,000 thousand tenge (2015: 4,819,797 thousand tenge). These contributions are fully made by cash.

As of 31 December 2016, the value of investments in subsidiaries increased by the amount of the discount as a result of recalculation of dividends receivable from subsidiaries and loans granted to subsidiaries in accordance with the repayment schedule. The amount of discount amounted to 1,941,854 thousand tenge (Notes 8 and 9).

These separate financial statements do not include the financial statements of subsidiaries.

(in thousands of tenge)

The list of the Company's subsidiaries indicating the activities, place of incorporation and interests owned by the Company as at 31 December is presented below:

Name	Principal activity	Country	Proportion of voting power 31 December 2016	2015
JSC 811 Motor-repair Plant KE	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	100%	100%
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range consumer goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	90%	90%
JSC Omega Instrument Making Plant	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing equipment	Kazakhstan	99%	99%
JSC Uralsk Plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
R&D center Kazakhstan Engineering LLP (former SRI Kazakhstan Engineering LLP)	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%

(in thousands of tenge)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates are presented below:

Name	Principal activity	31 December 2016 Cost	31 December 2016 Ownership interest, %	31 December 2015 Cost	31 December 2015 Ownership interest, %
KAMAZ-Semei LLP	Commercial activity	1,000	49%	1,000	49%
JSC KAMAZ-Engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	207,000	25%	207,000	25%
LLP Kazakhstan engineering Distribution	Sale of products manufactures by the entities of the Group, attracting investments, participation in state programmes and tenders for equipment supply	8,174	49%	8,174	49%
Kaz-ST Engineering Bastau LLP	Investment holding activity and provision of defence, engineering services.	10,553	49%	-	49%
Indra Kazakhstan engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	124,460	49%	124,460	49%
		351,187		340,634	
Less: allowance for impairment		(182,969)		(182,969)	
		168,218		157,665	

Investment in Joint ventures of the Company are presented below:

Name	Principal activity	31 December 2016	31 December 2015
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	87,336	87,336
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	3,853,818	3,353,818
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	1,150,213	1,150,213
		5,091,367	4,591,367
Less: allowance for impairment		(87,336)	(87,336)
		5,004,031	4,504,031

During 2016, the Company increased charter capital of Kazakhstan ASELSAN Engineering LLP by cash contributions of 500,000 thousand tenge.

8. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Loans given	12,687,048	15,467,348
Financial asset designated as at fair value through profit or loss	-	1,067,225
At the end of the year	12,687,048	16,534,573

(in thousands of tenge)

Loans given are presented as follows:

	31 December 2016	31 December 2015
JSC Semey Engineering	5,944,812	5,200,477
Kazakhstan Aviation Industry LLP	2,687,633	2,644,533
JSC Petropavlovsk Heavy Machinery Building Plant	1,844,926	1,999,390
JSC Kirov Machinery Plant	1,526,308	2,437,320
JSC Semipalatinsk Machinery Construction Plant	1,142,818	1,063,674
JSC Tynys	1,137,126	1,665,379
JSC S.M. Kirov Plant	219,007	797,190
JSC Omega Instrument Making Plant	212,768	138,920
JSC Kaztechnology	150,189	-
JSC 811 Motor-repair Plant KE	-	1,396,740
	14,865,587	17,343,623
Less: fair value adjustment	(554,919)	-
	14,310,668	17,343,623
Allowance for doubtful debts	(1,623,620)	(1,876,275)
	12,687,048	15,467,348
Current portion	10,905,313	13,986,290
Accrued interest	1,781,735	1,221,058
Non-current portion	-	260,000
	12,687,048	15,467,348

During 2016, the Company provided loan with the interest rate of 13.5% to JSC Semey Engineering in the amount of 150,000 thousand tenge with a maturity date 31 August 2016, temporary financial aid of 50,000 thousand tenge with a maturity date 30 September 2016. Also, the Company provided loan to JSC Omega Instrument Making Plant with the interest rate of 13.5% of 60,000 thousand tenge with a maturity date 31 December 2016. All these loans were not repaid on maturity. The management of the Company expects that loans will be repaid until 31 December 2017.

The Company provided loan to JSC Kaztechnology with the interest rate of 13.5% of 150,000 thousand tenge with a maturity date 15 January 2017.

During 2016, subsidiaries repaid loans given and financial aid of 5,095,572 thousand tenge (2015: 15,090,469 thousand tenge).

For the years ended 31 December 2016 and 2015, interest income on loans given amounted to 1,067,948 thousand tenge and 1,485,842 thousand tenge, respectively.

The movement in allowance for doubtful debts for the years ended is as follows:

	31 December 2016	31 December 2015
At the beginning of the year	(1,876,275)	(1,876,275)
Recovered during the year	252,655	-
At the end of the year	(1,623,620)	(1,876,275)

(in thousands of tenge)

9. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade receivables from subsidiaries (Note 26)	6,087,138	6,112,028
Trade receivables from related parties (Note 26)	1,233,346	55,538
Other receivables	6,299	5,602
	7,326,783	6,173,168
Less: fair value adjustment	(727,788)	-
Less: allowance for doubtful debts from subsidiaries	(303,748)	(380,044)
	6,295,247	5,793,124

As at 31 December 2016 and 2015 trade and other receivables are denominated tenge.

10. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Short-term advances to third parties	7,755,717	3,644,103
Receivables from related parties for penalties and fines on loans given (Note 26)	403,566	343,135
Prepaid expenses	44,897	27,263
Other	7,270	31,505
	8,211,450	4,046,006
Less: allowance for doubtful debts from related parties	(58,286)	(58,286)
	8,153,164	3,987,720

Short-term advances given include short-term advances given for the execution of the state defence orders of 7,734,356 thousand tenge (31 December 2015: 3,619,452 thousand tenge).

11. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on bank accounts in tenge	5,892,202	14,175,232
Cash on bank accounts in U.S. dollars	347,153	-
Cash on bank accounts in Russian rubles	3,018	-
	6,242,373	14,175,232

12. CHARTER CAPITAL

As at 31 December 2016 and 2015, authorized, issued and fully paid charter capital of the Company consists of common shares of 21,476,802 shares with par value of 1,000 tenge, each.

As at 31 December 2016 and 2015, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

In 2016, the Company did not declare and pay dividends.

(in thousands of tenge)

13. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2016 and 2015, additional paid-in capital amounted to 412,406 thousand tenge. Additional paid-in capital included the fair value adjustment on loan received from the Shareholder at interest rate below the market rate, net of deferred tax effect.

14. LOANS

	Maturity	Coupon rate	31 December 2016	31 December 2015
Loans				
JSC Halyk Bank of Kazakhstan				
Tranche 1	8 August 2017	14.0%	21,600,000	-
Tranche 2	31 August 2018	14.0%	4,640,590	-
Eurobonds issued at a price of 100%	3 December 2016	4.55%	-	68,002,000
			26,240,590	68,002,000
Including/(less):				
Accrued interest			1,223,741	231,689
Transaction costs			(150,049)	(197,633)
Total loans and bonds placed			27,314,282	68,036,056
Less: current portion of loans and debt securities issued			(22,715,124)	(68,036,056)
Non-current portion of loans			4,599,158	-

Eurobonds

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 an annual coupon rate of 4.55%.

On 3 December 2016, the Company fully paid their obligations on Eurobonds in the amount of 200 million U.S. dollars (equivalent at the repayment date 67,138,000 thousand tenge).

Loans

For the partial refinancing of Eurobonds, in 2016, the Company obtained loans from JSC Halyk Bank of Kazakhstan at the interest rate of 14% per annum in the amount of 21,491,001 thousand tenge and 4,599,158 thousand tenge with maturity 8 August 2017 and 31 August 2018, respectively. The interest is paid semi-annually. The payment of principal amount is made in a single payment at the maturity date. The loans were denominated in tenge.

15. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payable to third parties	3,007,467	375,734
Trade payable to subsidiaries (Note 26)	1,880,806	1,169,874
Trade payable to related parties (Note 26)	211,409	384,100
	5,099,682	1,929,708

As at 31 December 2016 and 2015 trade and other payables to third parties are mostly denominated in Russian rubles (Note 24).

(in thousands of tenge)

16. OTHER TAXES PAYABLE

	31 December 2016	31 December 2015
Value added tax payable	1,816,598	1,249,808
Pension and social contributions	12,956	11,603
Personal income tax	12,193	3,966
Social tax payable	10,563	10,428
	1,852,310	1,275,805

17. REVENUE

	2016	2015
Revenue from sale of goods	30,368,954	38,863,930
Revenue from rendering of services	25,210,472	8,046,232
	55,579,426	46,910,162

Revenue represents revenue from goods and services purchased from subsidiaries, associates, joint-ventures and third parties and sold by the Company for the state defence order purposes. 100% of revenue of the Company is from related parties for 2016 and 2015.

18. COST OF SALES

	2016	2015
Cost of goods sold	28,514,630	37,719,708
Cost of services rendered	24,875,186	8,021,677
	53,389,816	45,741,385

19. ADMINISTRATIVE EXPENSES

	2016	2015
Payroll and related taxes	1,191,775	814,791
Expenditures on KADEX	396,308	-
Personnel outsourcing	350,182	265,013
Rent expenses	193,673	181,539
Accrual of provision for unused vacation and other remunerations	177,571	166,339
Business trips and representative expenses	141,183	84,468
Depreciation and amortisation	115,244	117,298
Taxes	69,605	8,919
Professional services	40,367	24,583
Repair and maintenance	40,135	25,417
Materials	16,122	10,867
Education of personnel	10,481	15,325
Communication	9,228	7,692
Accrual of provision for impairment of investments	-	124,460
Recovery of allowance for doubtful debts	(328,952)	(330,181)
Other expenses	183,428	225,256
	2,606,350	1,741,786

(in thousands of tenge)

20. FINANCE INCOME

	2016	2015
Interest income on current accounts and deposits	2,441,082	1,792,340
Interest income on loans given (Notes 8 and 26)	1,067,808	1,485,842
Amortisation of fair value adjustment on loans given (Note 8)	659,146	19,067
Gain arising on financial assets measured as at fair value through profit or loss	127,714	4,685,389
Other finance income	183,603	-
	4,479,353	7,982,638

21. FINANCE COSTS

	2016	2015
Interest on issued bonds	2,881,773	2,515,915
Interest on loans	1,223,741	-
Unwinding of discount on issued bonds	198,043	312,915
Other finance costs	154,137	32,155
	4,457,694	2,860,985

22. TAXATION

	2016	2015
Deferred income tax benefit	(241,829)	(1,799,218)
Income tax benefit	(241,829)	(1,799,218)

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

	2016	2015
Profit/(Loss) before income tax	159,830	(4,962,649)
Theoretical income tax at official tax rate of 20%	31,966	(992,530)
Tax effect of permanent differences	(273,795)	(806,688)
Income tax benefit	(241,829)	(1,799,218)

The difference between IFRS and tax code of the Republic of Kazakhstan causes temporary differences between carrying amount of assets and liabilities and its base for corporate income tax calculation. Tax effect of changes of temporary differences is presented below and calculated using applicable tax rate:

	As at 1 January 2016	Recognised in profit and loss	As at 31 December 2016
Tax losses carried forward	2,685,388	268,332	2,953,720
Allowance for doubtful debts	87,665	(66,019)	21,646
Allowance for unused vacation, bonuses and other provisions	45,614	35,456	81,070
Taxes	2,086	27	2,113
Property, plant and equipment	(45,473)	4,033	(41,440)
	2,775,280	241,829	3,017,109

(in thousands of tenge)

	As at 1 January 2016	Recognised in profit and loss	As at 31 December 2016
Tax losses carried forward	846,699	1,838,689	2,685,388
Allowance for doubtful debts	153,702	(66,037)	87,665
Allowance for unused vacation, bonuses and other provisions	11,708	33,906	45,614
Taxes	4,935	(2,849)	2,086
Loans given	3,813	(3,813)	-
Property, plant and equipment	(44,795)	(678)	(45,473)
	976,062	1,799,218	2,775,280

In accordance with tax code of the Republic of Kazakhstan, the tax losses carried forward to 10 years the Company's losses incurred in 2013-2015 and thus can be utilized until 2023-2025.

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

Environmental matters

Management of the Company 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 separate financial statements.

Insurance

The Company 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 separate financial statements as at 31 December 2016.

Market limitation

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

(in thousands of tenge)

24. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

The main financial instruments of the Company include loans, cash, short-term deposits and trade and other receivables and payables. The main risks on financial instruments of the Company are interest rate risk, currency risk and credit risk. The Company also monitors market risk and liquidity risk arising on all the 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 monitors the return on (investment) capital, which the Company defines as net operating income divided by total shareholders' equity.

The Company manages its capital adequacy, to ensure that the Company 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 Company's approach to capital management during the year.

The Company is not subject to externally imposed equity requirements.

The Company's capital structure includes net debt (which is comprised of debt securities issued as disclosed in Note 14, after deducting cash and short-term financial investments in Note 11 and equity of the Company (which is comprised of charter capital, additional paid-in capital and accumulated deficit as disclosed in Notes 12 and 13).

	31 December 2016	31 December 2015
Borrowed funds	27,314,282	68,036,056
Cash and short-term financial investments	(6,242,373)	(41,927,551)
Net debt	21,071,909	26,108,505
Equity	16,828,976	16,427,317
Net debt to equity ratio	125,21%	158,93%

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 recognised in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the separate financial statements.

Financial risk management objectives

Risk management is an important element of the Company's activity. The Company monitors and manages the financial risks relating to operations of the Company 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 Company's risk management policies.

Interest rate risk

The risk associated with interest rates for the Company 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 Company. This risk is not significant to the Company, since the interest bearing financial assets and liabilities include fixed interest rates.

(in thousands of tenge)

Currency risk

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

Exposure to currency risk

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

	U.S. dollars		Russian ruble	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets:				
Cash and cash equivalents	347,153	-	3,018	-
Short-term financial investments	-	27,752,319	-	-
Financial liabilities:				
Debt securities issued	-	(68,036,056)	-	-
Trade and other payables	-	-	(2,066,533)	-
Net effect	347,153	(40,283,737)	(2,063,515)	-

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

	2016	**2015**
U.S. dollars	341.76	221.73
Russian ruble	5.12	3.61

Exchange rates as of 31 December:

	31 December 2016	**31 December 2015**
U.S. dollars	333.29	339.47
Russian ruble	5.43	4.65

Sensitivity analysis

The following table details the Company's sensitivity to 13.00% (2015: 60.00%) increase and decrease in the value of KZT with respect to USD, 23.00% (2015: 40.00%) with respect to Russian ruble. 13.00% and 23.00% is the sensitivity rate used when key management assesses and represents reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. The sensitivity analysis includes a) external loans and payables and b) receivables of the Company, where the denomination of the loan or payables/receivables is in a currency other than the currency of the lender or the borrower.

The following table shows changes in financial assets and liabilities when KZT weakens by 13.00%, and 23.00% compared to the relevant currency.

This analysis assumes that all other variables, in particular interest rates, remain constant.

	U.S. dollars		Russian ruble	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Profit or loss	45,130	(24,170,242)	(474,608)	-

(in thousands of tenge)

Credit risk

Credit risk arising from non-performing contract terms with the Company'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 Company to the contractors. The Company'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 Company believes that the maximum risk is its trade receivables (Note 9), 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 2016	31 December 2015
Within the country	1,283,007	5,793,124
	1,283,007	5,793,124

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

As at 31 December 2016 and 2015, distribution of trade and other receivables by aging was as follows:

	31 December 2016	31 December 2015
Not overdue	223,250	276,049
Overdue by 3-6 months	1,003,229	3,731,182
Overdue by 6-12 months	695,448	2,134
Overdue by more than 12 months	5,404,856	2,163,803
	7,326,783	6,173,168

Market risk

Market risk is where the possible fluctuations in the value of a financial instrument due to changes in market prices. The Company 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 Company will not be able to meet its financial obligations as they fall due. The Company 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 Company's short-, medium- and long-term funding and liquidity management requirements. The Company 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. See also Note 3.

(in thousands of tenge)

The following tables reflect the contractual terms of the Company 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 Company may be required to pay. The table includes the cash flows as interest and principal payments.

31 December 2016	**Interest**	**1 month–1 year**	**1-5 years**	**Unknown period**	**Total**
Non-interest bearing:					
Trade and other payables		5,099,682	-	-	5,099,682
Other current liabilities		718,140	-	-	718,140
Interest bearing:					
Loans	14.0%	25,237,424	5,073,712	-	30,311,136
Total		31,055,246	5,073,712	-	36,128,958

	Interest	**1 month–1 year**	**1-5 years**	**Unknown period**	**Total**
31 December 2015					
Non-interest bearing:					
Trade and other payables		1,929,708	-	-	1,929,708
Other current liabilities		104,096	-	-	104,096
Interest bearing:					
Debt securities issued	4.55-5%	70,893,545	-	-	70,893,545
Total		72,927,349	-	-	72,927,349

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

31 December 2016	**Interest**	**1 month–1 year**	**1-5 years**	**Unknown period**	**Total**
Non-interest bearing:					
Cash		6,242,373	-	-	6,242,373
Trade and other receivables		7,023,035	-	303,748	7,326,783
Interest bearing:					
Loans given	7.5-14%	14,333,344	-	1,623,620	15,956,964
Total		27,598,752	-	1,927,368	29,526,120

31 December 2015	**Interest**	**1 month–1 year**	**1-5 years**	**Unknown period**	**Total**
Non-interest bearing:					
Cash		14,175,232	-	-	14,175,232
Derivative financial instrument		1,067,225	-	-	1,067,225
Trade and other receivables		5,793,124	-	380,044	6,173,168
Interest bearing:					
Loans given	7.5-13.5%	16,283,763	1,493,992	-	17,777,755
Short-term financial investments	6%	29,417,458	-	-	29,417,458
Total		66,736,802	1,493,992	380,044	68,610,838

(in thousands of tenge)

25. 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 Company'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 Company 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.

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.

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 Company'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.

	31 December 2016		31 December 2015	
	Fair Value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Loans to subsidiaries	12,687,048	12,687,048	15,467,348	15,467,348
Short-term financial investments	-	-	27,752,319	27,752,319
Derivative financial instruments	-	-	1,067,225	1,067,225
Assets classified as held for sale	74,643	74,643	143,980	143,980
Total	12,761,691	12,761,691	44,430,872	44,430,872
Liabilities				
Loans	27,314,282	27,314,282	-	-
Debt securities issued	-	-	66,464,883	68,036,056
Total	27,314,282	27,314,282	66,464,883	68,036,056

(in thousands of tenge)

Fair value hierarchy as at 31 December 2016:

	At 31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans to subsidiaries	-	12,687,048	-	12,687,048
Non-financial assets				
Assets classified as held for sale	-	-	74,643	74,643
Financial liabilities				
Loans	-	27,314,282	-	27,314,282

Fair value hierarchy as at 31 December 2015:

	At 31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans to subsidiaries	-	15,467,348	-	15,467,348
Short-term financial investments	-	27,752,319	-	27,752,319
Derivative financial instrument	-	1,067,225	-	1,067,225
Non-financial assets				
Assets classified as held for sale	-	-	143,980	143,980
Financial liabilities				
Debt securities issued	66,464,883	-	-	66,464,883

In 2016, there was no transfer between hierarchy levels of fair value.

26. RELATED PARTY TRANSACTIONS

Related parties include associates, joint ventures and subsidiaries of the Company and the sole Shareholder of the Company, as well as subsidiaries of the sole Shareholder of the Company, including state owned profit oriented companies, as well as ministries and agencies.

Transactions with related parties carried out by the Company for the years ended 31 December 2016 & 2015, were generally conducted in the course of normal activity and on terms equivalent to those that prevail in transactions between independent parties.

Receivables from related parties (Note 9) including loans given (Note 8), receivable on penalties and fines, financial asset designated as at fair value through profit or loss (Note 8) less allowance for doubtful debts as follows:

	31 December 2016	31 December 2015
JSC Semey Engineering	9,900,618	9,156,281
Kazakhstan Aviation Industry LLP	2,688,361	2,862,910
JSC Tynys	2,393,495	2,682,111
JSC Petropavlovsk heavy machinery construction plant	2,115,125	2,269,590
JSC Kirov Machinery Plant	1,884,901	2,795,913
JSC Semipalatinsk machinery construction plant	1,288,033	1,208,889
Ministries and agencies	1,223,394	56,341
JSC S.M. Kirov Plant	598,465	1,113,662
JSC Omega Instrument Making Plant	212,768	138,920
R&D center Kazakhstan Engineering LLP	99,109	-
JSC 832 Motor-repair Plant KE	24,426	18,034
JSC ZIKSTO	10,755	15,755
JSC 811 Motor-repair Plant KE	-	2,466,261
JSC Uralsk Plant Zenith	-	129,397
JSC KazEng Electronics	-	8,286
Less adjustment to fair value	(1,282,707)	-
Less allowance for doubtful debt	(1,927,368)	(2,314,605)
	19,229,375	22,607,745

(in thousands of tenge)

Payables to related parties including loans, guarantees as security of execution of contracts and other payables are presented as follows:

	31 December 2016	31 December 2015
Kazakhstan Aviation Industry LLP	921,220	393,743
JSC S.M. Kirov Plant	591,395	338,834
JSC Tynys	250,297	354,845
Eurocopter Kazakhstan engineering LLP	153,569	72,135
JSC KazEng Electronics	58,013	-
Kazakhstan ASELSAN engineering LLP	25,276	145,276
JSC Semipalatinsk machinery construction plant	21,092	78,458
JSC Petropavlovsk heavy machinery construction plant	20,820	-
JSC Kirov Machinery Plant	10,670	-
JSC Aviarepair plant No.405	-	100,243
Samruk-Kazyna Corporate University LLP	-	55,289
Other	23,535	18,868
	2,075,887	1,557,691

Advances to related parties are presented as follows:

	31 December 2016	31 December 2015
JSC Uralsk Plant Zenith	2,985,800	1,672,000
JSC Semipalatinsk machinery construction plant	525,090	-
Kazakhstan Aviation Industry LLP	490,487	-
Kazakhstan ASELSAN engineering LLP	194,760	-
JSC Semey Engineering	143,316	102,325
JSC Omega Instrument Making Plant	91,346	-
JSC KazEng Electronics	44,990	174,040
JSC Kirov Machinery Plant	35,294	35,294
JSC Kazpost	2,238	931
JSC 811 Motor-repair Plant KE	1,320	-
JSC S.M. Kirov Plant	-	3,305,720
JSC RI Hydropribor	-	328,000
Korgau Enineering LLP	-	5,000
	4,514,641	5,623,310

Advances from related parties are presented as follows:

	31 December 2016	31 December 2015
Ministries and agencies	13,586,652	8,409,878
	13,586,652	8,409,878

Advances paid and received include advances for the execution of the state defence order.

For the years ended 31 December 2016 and 2015, the Company received revenue from following related parties (Note 17):

	2016	2015
Ministries and agencies	55,534,783	46,910,162
Indra Kazakhstan Engineering LLP	44,643	-
	55,579,426	46,910,162

(in thousands of tenge)

For the years ended 31 December 2016 and 2015, the Company received interest income from following related parties (Note 20):

	31 December 2016	**31 December 2015**
JSC Semey Engineering	486,014	313,727
Kazakhstan Aviation Industry LLP	174,364	177,156
JSC Petropavlovsk heavy machinery construction plant	131,091	161,248
JSC Tynys	98,729	131,430
JSC Semipalatinsk machinery construction plant	70,767	69,310
JSC S.M. Kirov Plant	37,726	110,732
JSC Kirov Machinery Plant	33,991	61,208
JSC 811 Motor-repair Plant KE	22,592	77,714
JSC Omega Instrument Making Plant	12,364	10,784
Kazakhstan Paramount Engineering LLP	-	363,098
JSC KazEng Electronics	-	1,683
JSC Uralsk Plant Zenith	-	7,751
	1,067,638	1,485,841

Finance expenses (Note 21)

	2016	**2015**
JSC Samruk-Energo	288,177	248,673
	288,177	248,673

Expenditures related to services received and goods purchased from related parties for the years ended 31 December 2016 and 2015 are presented as follows:

	2016	**2015**
JSC S.M. Kirov Plant	4,747,497	3,391,806
Kazakhstan ASELSAN engineering LLP	2,915,202	8,119,505
JSC KAMAZ-Engineering	2,387,769	5,845,223
JSC Uralsk Plant Zenith	2,185,357	62,500
Kazakhstan Aviation Industry LLP	1,750,606	2,001,782
JSC RI Hydropribor	1,654,804	221,904
JSC Semipalatinsk Machinery Construction Plant	1,085,966	866,829
JSC Tynys	677,772	2,338,782
JSC 811 Motor-repair Plant KE	435,123	393,377
Private Institution Corporate university Samruk-Kazyna	355,177	269,991
JSC Semey Engineering	307,133	-
JSC KazEng Electronics	274,246	501,152
Eurocopter Kazakhstan engineering LLP	162,813	64,406
JSC Petropavlovsk Heavy Machinery Building Plant	93,003	103,141
R&D center Kazakhstan Engineering LLP	79,652	74,788
JSC Kirov Machinery Plant	37,638	658,044
Indra Kazakhstan engineering LLP	16,033	-
JSC NC Kazakhstan Temir Zholy	6,683	182,537
JSC Aviarepair plant No.405	-	331,305
JSC Omega Instrument Making Plant	-	107,143
Other	14,082	11,420
	19,186,556	25,545,635

For the years ended 31 December 2016 and 2015, compensation to the key management personnel amounted to 107,860 thousand tenge and 75,078 thousand tenge, respectively.

27. SUBSEQUENT EVENTS

On 2 February 2017, the Company concluded an agreement on sale of 100% shares in JSC 832 Motor-repair Plant for 70,830 thousand tenge. According to the agreement, the buyer made an advance payment of 49,499 thousand tenge on 27 January 2017 as a guarantee fee.

28. APPROVAL OF SEPARATE FINANCIAL STATEMENTS

The separate financial statements of the Company for the year ended 31 December 2016 were approved and authorized for issue by management on 18 March 2017.