JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

Consolidated financial statements
for the year ended 31 December 2016

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONTENT

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

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

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

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved and authorized for issue by management on 3 March 2017.

On behalf of management of the Group

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

3 March 2017
Astana, the Republic of Kazakhstan

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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 opinion.

Emphasis of Matter

As described in Note 22 to the financial statements, 92% of the Group's sales for the year ended 31 December 2016 were to related parties. Our opinion is not modified in respect of this matter.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISAs 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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
State license on auditing activity in the Republic of Kazakhstan No.0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan on 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

3 March 2017
Astana, the Republic of Kazakhstan

CONSOLIDATED 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	6	23,255,690	19,756,556
Intangible assets		450,821	448,042
Investments in associates and joint ventures	8	5,802,533	6,363,709
Other non-current assets	9	1,809,983	2,110,275
Deferred tax assets	27	3,103,823	2,880,589
Total non-current assets		34,422,850	31,559,171
CURRENT ASSETS:			
Inventory	10	20,455,825	18,321,723
Trade accounts receivable	11	4,255,911	3,025,943
Income tax prepaid		1,608,078	1,017,776
Other taxes recoverable		543,930	429,428
Restricted cash		46,557	263,822
Advances paid	12	11,138,580	8,743,152
Other current assets		469,244	435,703
Short-term financial investments	13	937,196	30,503,718
Cash and cash equivalents	14	9,585,854	19,186,014
		49,041,175	81,927,279
Assets classified as held for sale		435,263	592,755
Total current assets		49,476,438	82,520,034
TOTAL ASSETS		83,899,288	114,079,205
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	15	21,476,802	21,476,802
Additional paid-in-capital	16	841,018	841,018
(Accumulated loss)/retained earnings		(1,140,057)	1,673,170
Equity attributable to shareholder of the Company		21,177,763	23,990,990
Non-controlling interests	17	667,814	656,018
Total equity		21,845,577	24,647,008
NON-CURRENT LIABILITIES:			
Loans	18	4,932,492	-
Finance lease obligations		492,782	623,235
Employee benefits obligations		32,480	37,393
Other non-current liabilities		51,316	176,630
Deferred tax liabilities	27	645,058	960,755
Debt component of preferred shares		229,885	229,885
Total non-current liabilities		6,384,013	2,027,898

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

	Notes	31 December 2016	31 December 2015
CURRENT LIABILITIES:			
Loans	18	25,079,205	750,000
Current portion of debt securities	18	-	68,036,056
Current portion of finance lease obligations		129,029	127,038
Trade accounts payable	19	8,449,026	3,248,977
Employee benefits obligation		7,409	11,582
Income tax payable		171,599	318,425
Other taxes payable	20	2,649,655	2,350,304
Advances received from related parties	31	15,142,306	9,771,916
Other current liabilities	21	4,041,469	2,790,001
Total current liabilities		55,669,698	87,404,299
Total liabilities		62,053,711	89,432,197
TOTAL EQUITY AND LIABILITIES		83,899,288	114,079,205

On behalf of management of the Group

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

3 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the consolidated financial statements. The independent auditor's report is on pages 2-4.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of tenge)

	Notes	2016	2015
REVENUE	22	71,331,233	63,516,498
COST OF SALES	23	(65,071,209)	(57,694,297)
GROSS PROFIT		6,260,024	5,822,201
Administrative expenses	24	(6,369,488)	(4,539,744)
Selling expenses		(779,321)	(854,918)
Other (expenses)/income, net		(414,796)	553,236
Foreign exchange gain/(loss), net		1,068,008	(13,811,348)
Share of loss in associates and joint ventures	8	(1,074,868)	(276,995)
Finance income	25	2,908,946	6,093,250
Finance costs	26	(4,588,565)	(2,782,339)
LOSS BEFORE INCOME TAX		(2,990,060)	(9,796,657)
INCOME TAX BENEFIT	27	238,255	1,530,239
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(2,751,805)	(8,266,418)
(Loss)/profit and total comprehensive (loss)/income attributable to :			
Shareholders of the Company		(2,813,227)	(8,337,487)
Non-controlling interests	17	61,422	71,069
		(2,751,805)	(8,266,418)

On behalf of management of the Group

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

3 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the consolidated financial statements. The independent auditor's report is on pages 2-4.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of tenge)

	Notes	2016	2015
OPERATING ACTIVITY:			
Loss before income tax		(2,990,060)	(9,796,657)
Adjustments for:			
Depreciation and amortization		1,195,403	1,135,361
Allowance for doubtful accounts		217,431	113,094
Write-off of inventory to net realizable value	10	551,269	-
Accrual of allowance for obsolete inventories	10	492,046	114,718
(Gain)/loss from property, plant and equipment and intangible assets disposal		(46,176)	10,152
Foreign exchange (gain)/loss		(1,068,008)	13,811,348
Share of loss in associates and joint ventures	8	1,074,868	276,995
Accrual of provision for warranty repair	21	138,747	258,412
Unused vacation provision and other remunerations	21	1,051,696	931,632
Other provisions		14,602	5,776
Finance income	25	(2,908,946)	(6,093,250)
Finance costs	26	4,588,565	2,782,339
Cash flows from operating activity before changes in working capital		2,311,437	3,549,920
Changes in working capital and other balances:			
Inventory		(2,673,901)	(5,311,868)
Trade accounts receivable		(1,444,507)	1,240,536
Value added tax and other taxes recoverable		(471,171)	(756,136)
Other assets		(1,105,500)	(4,090,948)
Trade accounts payable		5,171,323	(128,598)
Other taxes payable		299,351	1,238,465
Advances received from related parties and other liabilities		5,337,214	8,513,437
Cash generated from operations		7,424,246	4,254,808
Interest paid		(3,272,006)	(2,845,382)
Income tax paid		(681,135)	(619,388)
Net cash generated by operating activity		3,471,105	790,038
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment and advances paid for non-current assets		(3,986,743)	(4,736,838)
Acquisition of intangible assets		(11,483)	(2,171)
Loans given		(150,000)	(6,670,200)
Repayment of loans given		-	11,418,703
Dividends received		25,372	81,783
Proceeds from disposal of property, plant and equipment		83,402	21,880
Proceeds from selling of other non-current assets		61,380	-
Proceeds from sale of investments in associates and joint-ventures		114,569	-
Net cash outflow from acquisition of subsidiary		-	(771)
Contribution to charter capital of joint venture	8	(500,000)	-
Interest received		2,066,183	1,411,688
Placement of short-term financial investments		(67,408,207)	(46,313,457)
Withdrawal of short-term financial investments		96,111,571	62,433,524
Net cash generated by investing activity		26,406,044	17,644,141

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

	Notes	2016	2015
FINANCING ACTIVITY:			
Redemption of debt securities	18	(67,138,000)	(10,384,000)
Loans received		29,612,679	845,641
Loans repaid		(1,646,761)	(95,641)
Finance lease repaid		(128,230)	(128,230)
Dividends paid		(73,799)	(217,815)
Net cash used in financing activity		(39,374,111)	(9,980,045)
CHANGE IN CASH AND CASH EQUIVALENTS, net		(9,496,962)	8,454,134
CASH AND CASH EQUIVALENTS, at the beginning of the year	14	19,186,014	10,451,088
Effects of exchange rate changes on the balance of cash held in foreign currencies		(103,198)	280,792
CASH AND CASH EQUIVALENTS, at the end of the year	14	9,585,854	19,186,014

On behalf of management of the Group

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

3 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the consolidated financial statements. The independent auditor's report is on pages 2-4.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

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

	Notes	Charter Capital	Additional paid-in capital	Retained earnings/ (accumulated loss)	Equity attributable to the Shareholder of the Company	Non-controlling interests	Total
At 1 January 2015		21,476,802	841,018	10,159,253	32,477,073	691,530	33,168,603
Total comprehensive (loss)/income for the year		-	-	(8,337,487)	(8,337,487)	71,069	(8,266,418)
Measurement of debt component of preferred shares		-	-	(8,260)	(8,260)	-	(8,260)
Dividends	17	-	-	(140,336)	(140,336)	(106,581)	(246,917)
At 31 December 2015		21,476,802	841,018	1,673,170	23,990,990	656,018	24,647,008
Total comprehensive (loss)/income for the year		-	-	(2,813,227)	(2,813,227)	61,422	(2,751,805)
Dividends	17	-	-	-	-	(49,626)	(49,626)
At 31 December 2016		21,476,802	841,018	(1,140,057)	21,177,763	667,814	21,845,577

On behalf of management of the Group

Idrissov E.S.
Chairman

Mynsharipova S.N.
Deputy Chairman

Arkenova U.N.
Acting Chief accountant

3 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the consolidated financial statements. The independent auditor's report is on pages 2-4.

1. GENERAL INFORMATION

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

These consolidated financial statements include financial statements of the Company and its subsidiaries (together referred to as the "Group"). Information about the Group structure is presented in Note 7.

As at 31 December 2016 and 2015, the Group also had investments in associates and joint ventures (Note 8).

As at 31 December 2016 and 2015, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (JSC "SWF Samruk-Kazyna" or 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.

The Government, represented by JSC Sovereign Wealth Fund Samruk-Kazyna is the ultimate shareholder of the Company.

Principal activities of the companies in the Group are:

- participation in state policy on development, production, sale and liquidation of goods and equipment of defence, twofold and civil purposes;
- participation in development and implementation of current and long-term inter-industry development and production programs of defence and twofold purpose products to satisfy internal needs and export;
- production and import of defence purposes equipment and twofold purpose products for armed forces and other military services of the Republic of Kazakhstan and its export;
- development and execution of conversion programs and defence-production complex programs;
- participation in execution of state defence orders, forming and implementation 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 Group as at 31 December 2016 was 4,997 people (31 December 2015: 5,509 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 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 Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and the financial position of the Group is at this stage difficult to determine.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

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

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*;
- 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 IFRSs 2012-2014 Cycle

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

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs 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 IFRSs 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 Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group'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:

1) Identify the contract with the customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contracts;
5) 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 Group'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

Statement of compliance with IFRS

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

Basis of measurement

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

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

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

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

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

Functional and presentation currency

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

Foreign currency transactions

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

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

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

Going concern basis

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

As at 31 December 2016, current liabilities of the Group exceeded its current assets by 6,193,260 thousand tenge (31 December 2015: 4,884,265 thousand tenge), which is due to the need to repay a portion of the loan to JSC Halyk Bank of Kazakhstan in August 2017. The net loss for 2016 amounted to 2,751,805 thousand tenge (2015: 8,266,418 thousand tenge).

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

- The Group comprises the largest machinery plants in Kazakhstan, which produce products and services for defence purposes for State defence order of the Republic of Kazakhstan. Kazakhstan's national defence budget is expected to grow in 2017;
- The Group expects cash inflows from the disposal of assets held for sale in accordance with its plan of privatization, and by involving strategic partners, with the purpose of increasing the effectiveness of the Group;
- The Group expects to repay its loan to JSC Halyk Bank of Kazakhstan from operating activities and cash inflows from the sale of the above mentioned assets;
- The Group is negotiating additional financing facilities with financial institutions during 2017.

Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

Investment in associates and joint-ventures

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

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

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

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

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

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

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

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

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell at the date of reclassification.

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

Impairment of tangible and intangible assets

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

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

Inventories

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

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

Recognition of financial instruments

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

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

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

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, cash in transit, cash in hand and short-term deposits with an original maturity not exceeding three months.

Short-term financial investments

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

Trade accounts receivable

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

Loans and other receivables

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

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

Other financial assets

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

Impairment of financial assets

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

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

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

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

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

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

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

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

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Revenue recognition

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

Sale of goods

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

Rendering of services

Revenue from 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 consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Borrowing costs

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

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

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

Pension fund liabilities

The Group makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 171,443 tenge per month (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 consolidated statement of comprehensive income.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Provisions

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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 Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated 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 companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, investments in these joint arrangements are classified as investments in joint ventures (Note 8).

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

Impairment of assets

As of 31 December 2016, the Company made an assessment of impairment indicators of non-current assets 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. The Group management held impairment test using its best estimates. As a result of the test no impairment has been 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 Group's management believes that the Group has paid or accrued all applicable taxes. In unclear cases, the Group has accrued tax liabilities based on management's best estimate. Group policy requires the formation of reserves in the period in which there is a possibility of loss, the amount of which can be determined with reasonable accuracy.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 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.

5. SEGMENT INFORMATION

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

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

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

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

(in thousands of tenge)

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

	2016	2015
Specialised products and twofold purposes products	37,733,536	44,948,653
Services (engineering)	26,667,843	10,376,654
Civil purposes products	6,929,854	8,191,191
	71,331,233	63,516,498

The Group carries out its activity in Kazakhstan.

Inter-segment sales for 2016 amounted to 13,010,973 thousand tenge (2015: 10,680,605 thousand tenge).

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

	2016	2015
Specialised products and twofold purposes products	37,733,536	44,948,653
Services (engineering)	26,667,843	10,376,654
Civil purposes products:		
- Oil and gas equipment	4,577,992	5,417,822
- Railway equipment	368,545	825,325
- Other products	1,983,317	1,948,044
	71,331,233	63,516,498

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

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

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

In 2016, specialized products sales were mainly made to ministries and agencies of 59,105,312 thousand tenge, including some services (2015: 51,498,039 thousand tenge); oil and gas equipment sales were mainly made to JSC NC KazMunaiGas of 2,769,177 thousand tenge (2015: 3,609,752 thousand tenge); railway equipment and other products sales were mainly made to JSC NC Kazakhstan Temir Zholy of 1,301,906 thousand tenge (2015: 1,633,259 thousand tenge) (Note 31).

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

	31 December 2016	31 December 2015
Kazakhstan	67,522,126	61,419,946
CIS countries	3,809,107	2,096,552
	71,331,233	63,516,498

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in progress	Total
Initial or deemed cost:						
At 1 January 2015	198,192	8,217,160	9,500,788	1,031,240	2,099,604	21,046,984
Additions	323,128	131,577	257,664	67,861	4,821,586	5,601,816
Internal movement	202	235,705	463,997	36,687	(736,591)	-
Disposals	(1,727)	(8,842)	(102,448)	(11,065)	-	(124,082)
At 31 December 2015	519,795	8,575,600	10,120,001	1,124,723	6,184,599	26,524,718
Additions	-	36,044	173,140	32,031	4,102,331	4,343,546
Internal movement	(38,649)	7,763,211	1,805,328	204,590	(9,734,480)	-
Transfer to Inventory	-	-	(286)	(220)	(7,290)	(7,796)
Transfer from Inventory	-	231	57,714	2,432	346,183	406,560
Transfer to intangible assets	-	-	-	-	(44,732)	(44,732)
Disposals	-	(58,607)	(71,009)	(7,623)	-	(137,239)
At 31 December 2016	481,146	16,316,479	12,084,888	1,355,933	846,611	31,085,057
Accumulated depreciation and impairment:						
At 1 January 2015	-	(1,407,035)	(3,940,058)	(423,280)	-	(5,770,373)
Depreciation charge for the year	-	(218,477)	(728,790)	(128,897)	-	(1,076,164)
Disposals	-	4,384	63,765	10,226	-	78,375
At 31 December 2015	-	(1,621,128)	(4,605,083)	(541,951)	-	(6,768,162)
Depreciation charge for the year	-	(250,876)	(764,675)	(126,921)	-	(1,142,472)
Disposals	-	11,336	63,258	6,673	-	81,267
At 31 December 2016	-	(1,860,668)	(5,306,500)	(662,199)	-	(7,829,367)
Carrying amounts:						
At 31 December 2016	481,146	14,455,811	6,778,388	693,734	846,611	23,255,690
At 31 December 2015	519,795	6,954,472	5,514,918	582,772	6,184,599	19,756,556

As at 31 December 2016, construction in progress includes the development of MAZ automotive engineering in the subsidiary JSC Semipalatinsk Machinery Construction Plant in the amount of 633,273 thousand tenge (31 December 2015: 556,964 thousand tenge).

The project "Aerotechnical center in Astana" was put into operation on 15 September 2016 of 8,750,651 thousand tenge, of which:

- buildings and constructions of 7,430,929 thousand tenge;
- machinery and equipment of 1,116,108 thousand tenge;
- other assets of 203,614 thousand tenge.

As at 31 December 2016, property, plant and equipment with carrying value of 194,849 thousand tenge were pledged as collateral for finance lease and bank guarantees obtained by the Group (31 December 2015: 477,809 thousand tenge).

As at 31 December 2016, carrying value of property, plant and equipment received under finance lease amounted to 992,679 thousand tenge (31 December 2015: 1,142,756 thousand tenge). This equipment serves as collateral for the obligations under finance leas.

The cost of fully depreciated property, plant and equipment as at 31 December 2016 and 2015 amounted to 1,223,946 thousand tenge and 1,032,866 thousand tenge, respectively.

As at 31 December 2016, carrying value of temporarily idle property, plant and equipment amounted to 269,484 thousand tenge (31 December 2015: 315,348 thousand tenge).

(in thousands of tenge)

7. SUBSIDIARIES

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 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	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&A 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%
JV Korgau Engineering LLP	Production and supply of personal protective equipment for human respiratory system	Kazakhstan	100%	100%

(in thousands of tenge)

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

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

Name of subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Carrying amount of non-controlling interest	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
JSC Munaymash	48%	48%	61,422	71,069	510,302	498,349

The management of the Group assessed whether or not the Group has control based on whether the Group has the practical ability to direct the relevant activities of JSC Munaymash unilaterally. In making their judgement, the management considered the Group's absolute size of holding in JSC Munaymash and relative size of and dispersion of the holdings owned by the other shareholder. After assessment, the management concluded that the Group has a significant dominant voting interest to direct the relevant activities of JSC Munaymash and therefore the Group has control over JSC Munaymash.

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

	31 December 2016	31 December 2015
Current assets	1,435,520	1,130,586
Non-current assets	1,003,043	1,287,790
Current liabilities	(769,865)	(735,861)
Non-current liabilities	(605,568)	(643,856)
Equity attributable to Shareholders of the parent company	552,828	540,310
Non-controlling interests	510,302	498,349
	2016	**2015**
Revenue	2,364,079	2,351,261
Expenses	(2,236,011)	(2,203,077)
Profit and total comprehensive income for the year	128,068	148,184
Attributable to:		
the Shareholder	66,646	77,115
the non-controlling interests	61,422	71,069
Profit and total comprehensive income for the year	128,068	148,184
Dividends declared to non-controlling interests	49,626	106,581
Dividends paid to non-controlling interests	62,229	52,998
Net cash inflow/(outflow) from:		
- operating activities	206,462	201,549
- investing activities	34,297	(57,986)
- financing activities	(244,431)	(291,198)
Net cash outflow	(3,672)	(147,635)

(in thousands of tenge)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

			31 December 2016		31 December 2015	
Name	**Principal activity**	**Place of incorporation and principal place of business**	**Carrying value**	**Proportion of ownership interest and voting power**	**Carrying value**	**Proportion of ownership interest and voting power**
Associates:						
JSC KAMAZ engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	734,436	25.00%	625,588	25.00%
Other			25,056	49.00%	16,250	49.00%
Total investments in associates			759,492		641,838	
Joint ventures:						
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	3,268,195	50.00%	2,946,249	50.00%
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	Kazakhstan	1,774,846	50.00%	2,775,622	50.00%
Thales Kazakhstan engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment for defence services	Kazakhstan	-	50.00%	-	50.00%
Total investments in joint ventures			5,043,041		5,721,871	

(in thousands of tenge)

All the above-mentioned associates and joint ventures are strategic for the Group's activity.

By the decision of Board of Directors of the Company dated 29 January 2016, assets restructuring plan for 2016 was approved, according to which it is planned to liquidate Thales Kazakhstan engineering LLP. In December 2016, by the decision of general meeting of participants of Thales Kazakhstan engineering LLP, its liquidation was approved.

As at 31 December, the movement in investments in associates and joint ventures was as follows:

	2016	2015
Associates		
At 1 January	641,838	661,025
Share of profit	103,962	58,195
Dividends received	(12,061)	(77,382)
Transfer from assets held for sale	25,753	-
At 31 December	759,492	641,838
Joint ventures		
At 1 January	5,721,871	6,057,061
Share of loss	(1,178,830)	(335,190)
Contributions to charter capital without change in ownership share	500,000	-
At 31 December	5,043,041	5,721,871

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

	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current assets, including	2,112,800	3,444,289	5,563,652	4,977,155
Cash and cash equivalents	973,423	1,867,532	694,663	953,515
Non-current assets	2,409,052	2,221,329	8,239,352	7,256,124
Current liabilities	(972,160)	(61,968)	(7,535,836)	(6,656,915)
Non-current liabilities	-	(52,406)	(334,643)	(173,716)
Net assets	3,549,692	5,551,244	5,932,525	5,402,648
Group's ownership interest	50%	50%	50%	50%
Group's share of net assets	1,774,846	2,775,622	2,966,263	2,701,324
Fair value adjustment of interest free loans given	-	-	301,932	244,925
Carrying amount of the Group's interest in joint ventures	1,774,846	2,775,622	3,268,195	2,946,249

	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	2016	2015	2016	2015
Revenue	413,961	90,224	5,837,771	9,405,227
Loss and total comprehensive loss for the year	(2,001,552)	(204,924)	(356,108)	(465,456)
Share of loss in joint ventures	(1,000,776)	(102,462)	(178,054)	(232,728)

(in thousands of tenge)

9. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Value added tax	1,358,275	957,785
Inventories for capital repair and construction of non-current assets	346,956	249,401
Advances paid for property, plant and equipment	54,664	880,486
Long-term financial investments	5,150	4,479
Other	44,938	18,124
	1,809,983	2,110,275

Long term value added tax arose in the following subsidiaries: JSC Tynys of 371,433 thousand tenge (2015: 382,110 thousand tenge) and Kazakhstan Aviation Industry LLP of 986,842 thousand tenge (2015: 575,675 thousand tenge). The management believes that these amounts will be recoverable in the period of more than 12 months.

10. INVENTORY

	31 December 2016	31 December 2015
Raw materials	9,153,889	7,681,245
Work-in-process	9,017,667	7,913,165
Finished goods	3,365,406	2,874,726
Goods for resale	163,503	97,509
	21,700,465	18,566,645
Less: allowance for obsolete inventories	(693,371)	(244,922)
Write-off to net realizable value (Note 24)	(551,269)	-
	20,455,825	18,321,723

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

	2016	2015
Allowance for obsolete inventories at the beginning of the year	(244,922)	(313,413)
Accrued during the year (Note 24)	(492,046)	(114,718)
Written-off against previously created allowance	43,597	183,209
Allowance for obsolete inventories at the end of the year	(693,371)	(244,922)

As of 31 December 2016, in subsidiary JSC Semey Engineering was accrued allowance for obsolete inventory of 432,657 thousand tenge, and the carrying amount of work in progress was written-off to net realizable value of 551,269 thousand tenge.

(in thousands of tenge)

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade receivables from related parties (Note 31)	3,746,360	2,200,582
Trade receivables from third parties	947,398	1,084,751
	4,693,758	3,285,333
Less: allowance for doubtful debts from third parties	(437,847)	(259,390)
	4,255,911	3,025,943

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

	2016	2015
Allowance for doubtful debts at the beginning of the year	(259,390)	(257,045)
Accrued during the year	(181,111)	(171,297)
Written-off against previously created allowance	2,654	168,952
Allowance for doubtful debts at the end of the year	(437,847)	(259,390)

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

	31 December 2016	31 December 2015
Tenge	3,826,621	2,982,320
Russian roubles	256,988	39,709
U.S. dollars	172,302	3,375
Euro	-	539
	4,255,911	3,025,943

12. ADVANCES PAID

	31 December 2016	31 December 2015
Current advances paid to third parties	11,037,206	8,832,868
Current advances paid to related parties (Note 31)	316,702	55,533
	11,353,908	8,888,401
Less: allowance for doubtful debts	(215,328)	(145,249)
	11,138,580	8,743,152

(in thousands of tenge)

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

	2016	2015
Allowance for doubtful debts at the beginning of the year	(145,249)	(32,125)
Accrued during the year	(74,684)	(121,251)
Written-off against previously created allowance	4,605	8,127
Allowance for doubtful debts at the end of the year	(215,328)	(145,249)

13. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2016		31 December 2015	
	Interest rate	Amount	Interest rate	Amount
JSC Tsesnabank	3.5%-17.0%	688,974	3.0%-15.0%	29,057,260
JSC Kazkommertsbank	13.5%-15.0%	143,111		-
JSC ATF Bank	10.0%	100,000	8.0%	502,900
JSC Halyk Bank of Kazakhstan	12.0%	8,200	12.0%	170,000
JSC Eurasian Bank	18.5 %	1,598	3.0-10.5%	370,162
JSC SB Sberbank	8.0% - 14.7%	463	10.8-14.7%	63,274
JSC Delta Bank		-	4.0-12.0%	344,601
		942,346		30,508,197
Less: long-term portion		(5,150)		(4,479)
		937,196		30,503,718

As at 31 December 2016 and 2015, short-term financial investments are represented by bank deposits, which mature in 3-12 months.

As at 31 December, short-term financial investments are denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	852,838	935,993
U.S. dollars	81,979	29,483,079
Russian roubles	2,379	84,646
	937,196	30,503,718

(in thousands of tenge)

14. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on bank accounts in tenge	8,428,328	18,017,797
Cash on bank accounts in foreign currencies	1,105,075	1,034,586
Petty cash in tenge	24,891	41,411
Cash on special bank accounts in tenge	3,560	2,975
Cash in transit in tenge	-	245
Short-term deposits	24,000	89,000
	9,585,854	19,186,014

As at 31 December 2016, short-term deposits represent deposits in JSC Tsesnabank of 24,000 thousand tenge. These deposits are denominated in tenge and placed with an original maturity of 1 to 3 months and bear an interest rate of 10% per annum.

Cash and cash equivalents are denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	8,480,779	18,151,428
Russian roubles	567,751	364,129
U.S. dollars	536,014	662,196
Euro	1,310	8,261
	9,585,854	19,186,014

15. 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 a 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.

16. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2016 and 2015, additional paid-in-capital amounted to 841,018 thousand tenge. Additional paid-in-capital includes the following:

- a difference between the value of shares paid by PA Committee on State Property and Privatisation of the Ministry of Finance of Kazakhstan as a contribution to the share capital and the value of registered share capital of the Company of 428,612 thousand tenge;
- a fair value adjustment, less deferred tax effect, on the below market rate loans from the Shareholder of 412,406 thousand tenge. These loans were fully repaid during 2013.

(in thousands of tenge)

17. NON-CONTROLLING INTEREST

	2016	2015
At 1 January	656,018	691,530
Profit and total comprehensive income for the year, attributable to non-controlling interests	61,422	71,069
Dividends	(49,626)	(106,581)
At 31 December	667,814	656,018

18. LOANS

	Coupon rate	31 December 2016	31 December 2015
Loans:			
JSC Halyk Bank of Kazakhstan	14.0%	28,233,234	-
JSC Kazkommertsbank	16.4% - 17.0%	675,792	750,000
Motor Sich Kazakhstan LLP	-	862	-
Eurobonds issued at a price of 100%	4.55%	-	68,002,000
		28,909,888	68,752,000
Including/(less):			
Accrued interest		1,235,299	231,689
Transaction costs		(133,490)	(197,633)
Total loans and debt securities		30,011,697	68,786,056
Less: current portion of loans and debt securities		(25,079,205)	(68,786,056)
Non-current portion of loans and debt securities		4,932,492	-

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 and finally 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

In 2016, for the partial refinancing of Eurobonds, 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.

In October 2016, the subsidiary JSC S.M. Kirov Plant opened the credit line in JSC Halyk Bank of Kazakhstan for the amount of 744,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity of 12 months. As at 31 December 2016, the Company used 634,585 thousand tenge of the credit line. The loan is guaranteed by the Company. Accrued interest and principle are paid monthly.

In addition, in October 2016, the subsidiary JSC Uralsk Plant Zenith opened credit line in JSC Halyk Bank of Kazakhstan for the amount of 900,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity of 12 months. As at 31 December 2016, the Company used 875,000 thousand tenge of the credit line. Loan is guaranteed by the Company. Accrued interest and principle are paid monthly.

(in thousands of tenge)

In November 2016, the subsidiary JSC Tynys opened the credit line in JSC Halyk Bank of Kazakhstan of 1,000,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity till 21 November 2019. As at 31 December 2016, the Company used 500,000 thousand tenge of the credit line. According to the agreement, the principal amount is paid semi-annually. Accrued interest is paid monthly.

At the end of 2016, in accordance with the credit line agreement concluded with JSC Kazkommertsbank, the subsidiary JSC Petropavlovsk Heavy Machinery Building Plant entered into short-term loan agreement of 675,792 thousand tenge for replenishment of working capital at the interest rate of 16.4% and 17.0% per annum and maturity of twelve months. The loans are guaranteed by the Company. Accrued interest is paid monthly. Principal amount is paid monthly after 3 months from the date of loan receipt.

As of 31 December 2016, the Group complied with all covenants of credit agreements.

19. TRADE ACCOUNTS PAYABLES

	31 December 2016	31 December 2015
Accounts payable to suppliers and contractors	7,429,152	2,245,179
Accounts payable to related parties (Note 31)	1,019,874	1,003,798
	8,449,026	3,248,977

Trade accounts payable are denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	3,130,292	2,389,925
Russian roubles	3,081,913	213,957
U.S. dollars	1,946,576	544,017
Euro	290,245	101,078
	8,449,026	3,248,977

20. OTHER TAXES PAYABLE

	31 December 2016	31 December 2015
VAT payable	2,114,274	1,957,941
Pension and social contributions	237,341	174,848
Personal income tax	185,258	131,568
Social tax	111,018	78,951
Other taxes	1,764	6,996
	2,649,655	2,350,304

(in thousands of tenge)

21. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Provisions	1,333,835	950,767
Advances received from third parties	1,698,186	616,425
Dividends payable to third parties	300,316	283,342
Salary payable	150,157	173,397
Other payables	558,975	766,070
	4,041,469	2,790,001

Movement in provisions is presented as follows:

	Warranty repair	Unused vacation and other remunerations to employees	Other accrued liabilities	Total
At 1 January 2015	24,102	366,719	22,524	413,345
Recognised in:				
non-current liabilities	13,004	25,096	-	38,100
current liabilities	11,098	341,623	22,524	375,245
Accrued for the year	258,412	931,632	17,825	1,207,869
Repaid/used	(619)	(622,384)	(20,600)	(643,603)
At 31 December 2015	281,895	675,967	19,749	977,611
Recognised in:				
non-current liabilities	3,429	23,415	-	26,844
current liabilities	278,466	652,552	19,749	950,767
Accrued for the year	138,747	1,051,696	14,602	1,205,045
Repaid/used	(70,131)	(742,359)	(12,982)	(825,472)
At 31 December 2016	350,511	985,304	21,369	1,357,184
Recognised in:				
non-current liabilities	665	22,684	-	23,349
current liabilities	349,846	962,620	21,369	1,333,835

Other current liabilities are mainly denominated in tenge.

22. REVENUE

	2016	2015
Revenue from sale of purchased goods and services	42,568,452	36,290,079
Revenue from sale of manufactured goods, services	28,762,781	27,226,419
	71,331,233	63,516,498

In 2016, revenue from operations with related parties amounted to 65,895,689 thousand tenge (2015: 58,592,193 thousand tenge), which represents 92% of total revenue (2015: 92%) (Note 31).

(in thousands of tenge)

23. COST OF SALES

	2016	2015
Cost of purchased goods and services	40,102,955	35,273,957
Cost of manufactured goods, services	24,968,254	22,420,340
	65,071,209	57,694,297

For the year ended 31 December, cost of manufactured goods, services is presented as follows:

	2016	2015
Raw materials	13,930,642	14,042,202
Payroll and related taxes	6,290,483	5,815,023
Subcontractors' services	3,807,670	3,530,162
Depreciation and amortisation	958,702	911,109
Utilities	594,842	439,723
Provision for unused vacation and other remunerations	467,828	431,649
Accrual of provision for warranty repair (Note 21)	133,912	258,412
Repair and maintenance	25,207	136,433
Other	354,150	256,583
	26,563,436	25,821,296
Work-in-process at the beginning of the year	7,913,165	5,190,215
Work-in-process at the end of the year (Note 10)	9,017,667	7,913,165
Change in work-in-process	(1,104,502)	(2,722,950)
Finished goods at the beginning of the year	2,874,726	2,196,720
Finished goods at the end of the year (Note 10)	3,365,406	2,874,726
Change in finished goods	(490,680)	(678,006)
	24,968,254	22,420,340

(in thousands of tenge)

24. ADMINISTRATIVE EXPENSES

	2016	2015
Payroll and related taxes	2,230,745	1,835,235
Write-off of inventory to net realizable value (Note 10)	551,269	-
Allowance for obsolete inventories (Note 10)	492,046	114,718
Third party services	391,179	365,168
Provision for unused vacation and other remunerations	384,533	488,747
Business trips and representative expenses	258,480	141,305
Allowance for doubtful debts	255,795	113,094
Rent expenses	204,801	191,564
Depreciation and amortisation	219,180	204,779
Taxes	158,786	96,187
Other	1,222,674	988,947
	6,369,488	4,539,744

25. FINANCE INCOME

	2016	2015
Interest income on short-term deposits and current accounts	2,719,101	1,985,408
Other finance income	189,676	107,513
Interest income on loans given	169	363,098
Amortisation of fair value adjustment on loans given	-	19,067
Gain arising on financial assets designated as at fair value through profit or loss	-	3,618,164
	2,908,946	6,093,250

26. FINANCE COSTS

	2016	2015
Coupon on bonds issued and interest on loans	4,074,670	2,304,410
Amortisation of discount on bonds issued	198,043	312,915
Dividends on preferred shares	52,425	52,290
Interest on finance lease	34,435	40,770
Other finance costs	228,992	71,954
	4,588,565	2,782,339

During 2016, finance costs from related parties amounted to 288,177 thousand tenge (2015: 248,673 thousand tenge) (Note 31).

27. TAXATION

	2016	2015
Current income tax expense	300,676	327,672
Deferred tax benefit	(538,931)	(1,857,911)
Income tax benefit	(238,255)	(1,530,239)

(in thousands of tenge)

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

	2016	2015
Loss before income tax from continuing operations	(2,990,060)	(9,796,657)
Theoretical income tax at official tax rate of 20%	(598,012)	(1,959,331)
Tax effect of permanent differences	(239,058)	373,693
Tax effect of non-deductible expenses	244,749	-
Share of loss in associates and joint ventures, not taxable	220,681	55,399
Other permanent differences	133,385	-
	(238,255)	(1,530,239)

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:

	At 1 January 2016	Recognised in profit and loss	At 31 December 2016
Tax losses carried forward	2,834,320	300,680	3,135,000
Other liabilities	148,846	56,218	205,064
Provisions	96,763	217,909	314,672
Trade accounts receivable	60,423	16,559	76,982
Taxes payable	16,709	9,024	25,733
Loans given	45,977	-	45,977
Inventory	(11,636)	17,856	6,220
Property, plant and equipment	(1,271,568)	(79,315)	(1,350,883)
	1,919,834	538,931	2,458,765

	At 1 January 2015	Recognised in profit and loss	At 31 December 2015
Tax losses carried forward	555,563	2,278,757	2,834,320
Other liabilities	89,173	59,673	148,846
Provisions	67,503	29,260	96,763
Trade accounts receivable	49,810	10,613	60,423
Taxes payable	20,252	(3,543)	16,709
Loans given	4,109	41,868	45,977
Inventory	-	(11,636)	(11,636)
Property, plant and equipment	(724,487)	(547,081)	(1,271,568)
	61,923	1,857,911	1,919,834

28. CONTINGENT LIABILITIES

Taxation and regulatory environment

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

Legal matters

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

Environmental matters

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

Insurance

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2016.

Market limitation

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

Capital commitments

As at 31 December 2016 and 2015, the Group has number of commitments for acquisition of property, plant and equipment of 127,654 thousand tenge and 3,236,089 thousand tenge, respectively.

29. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

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

Capital adequacy management

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

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

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed equity requirements.

The Group's capital structure includes net debt (which is comprised of debt securities issued, finance lease, including embedded derivative and debt component of preferred shares, after deducting cash and cash equivalents, restricted cash and short-term financial investments) and equity of the Group (which is comprised of charter capital, additional paid-in capital, retained earnings and non-controlling interests as disclosed in Notes 15, 16 and 17).

(in thousands of tenge)

	31 December 2016	31 December 2015
Borrowed funds	30,863,393	69,766,214
Cash and cash equivalents, short-term investments and restricted cash	(10,569,607)	(49,953,554)
Net debt	20,293,786	19,812,660
Equity	22,091,801	24,647,008
Net debt to equity ratio	91.86%	80.39%

Significant accounting policies

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

Financial risk management objectives

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

Interest rate risk

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

Currency risk

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

The Group maintains a portion of its cash and cash equivalents and other financial assets on deposits in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

(in thousands of tenge)

Exposure to currency risk

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

	Denominated in U.S. dollars		Denominated in Russian roubles		Denominated in Euro	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets:						
Cash and cash equivalents	536,014	662,196	567,751	364,129	1,310	8,261
Short-term financial investments	81,979	29,483,079	2,379	84,646	-	-
Trade and other receivables	172,454	37,033	318,710	99,979	-	539
Financial liabilities:						
Loans	-	(68,036,056)	-	-	-	-
Trade accounts payable	(1,946,576)	(544,017)	(3,081,913)	(213,957)	(290,245)	(101,078)
Net effect	(1,156,129)	(38,397,765)	(2,193,073)	334,797	(288,935)	(92,278)

In 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. During 2016, tenge has strengthened significantly against the dollar. The Company has repaid liabilities on Eurobonds at the end of 2016. As the result, the Group recognized a net foreign exchange gain in the amount of 1,068,008 thousand tenge at the end of 2016 (2015: foreign exchange loss in the amount of 13,811,348 thousand tenge).

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

	2016	2015
U.S. dollars	341.76	221.73
Euro	378.32	245.80
Russian roubles	5.12	3.61

Exchange rates as of 31 December:

	31 December 2016	31 December 2015
U.S. dollars	333.29	339.47
Euro	352.42	371.31
Russian roubles	5.43	4.65

Sensitivity analysis

The following table details the Group's sensitivity to 13.00% (2015: 60.00%) increase and decrease in the value of tenge with respect to U.S dollars, 23.00% (2015: 40.00%) with respect to Russian roubles and 15.00% (2014: 60.00%) with respect to Euro. 13.00%, 23.00% and 15.00% 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) open positions with external contractors as well as b) payables/receivables of intragroup transactions with foreign contractors of the Group, if the transaction denominated in currency other than the currency of the lender or the borrower.

(in thousands of tenge)

The following table shows changes in financial assets and liabilities when tenge weakens by 13.00%, 23.00% and 15.00% compared to the relevant currency.

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

	U.S. dollars		**Russian roubles**		**Euro**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Profit or loss	(150,297)	(23,038,659)	(504,407)	133,919	(43,340)	(55,367)

Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is its trade receivables (Note 11), 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	3,826,621	2,982,320
Outside the country	429,290	43,623
	4,255,911	3,025,943

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

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

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

	31 December 2016	**31 December 2015**
Not overdue	4,255,911	3,025,943
Overdue by 3-6 months	-	-
Overdue by 6-12 months	-	-
Overdue by more than 12 months	437,847	259,390
	4,693,758	3,285,333

With respect to credit risk associated with cash and cash equivalents and short-term financial investments, the Group's risk of default of credit institutions in which funds are deposited, with a maximum exposure equal to the current value of these instruments, is considered to be insignificant. As at 31 December 2016, the Group places cash and cash equivalents in the largest second-tier banks of Republic of Kazakhstan: 47% of the Group`s cash and cash equivalents in the amount of 3,956,476 thousand tenge, including short-term deposits in the amount of 688,974 thousand tenge are placed at JSC Tsesnabank (a credit rating B+/Negative/B, kzBBB- according to Standard&Poor's rating), 35% of cash and cash equivalents in the amount of 2,999,891 thousand tenge are placed at JSC Eurasian Bank (a credit rating B/Stable/B, kzBB according to Standard&Poor's rating), 4% of cash and cash equivalents in the amount of 327,359 thousand tenge are placed at JSC Halyk Bank of Kazakhstan (a credit rating BB/Negative/B, kzA according to Standard&Poor's rating).

(in thousands of tenge)

The Group analyses liquidity, credit and currency risks when placing short-term financial investments in second tier banks. The Group controls credit risk through diversification of cash and cash equivalents in second tier banks.

Market risk

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

Liquidity risk

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

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and available credit lines by continuously monitoring forecast and actual cash flows and comparing the maturity of financial assets and liabilities. See also Note 3.

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

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2016						
Non-interest bearing:						
Trade accounts payable	-	8,449,026	-	-	-	8,449,026
Other liabilities	-	859,290	-	26,111	229,885	1,115,286
Interest bearing:						
Loans	14%-17%	4,040,715	23,816,552	5,599,520	-	33,456,787
Finance lease	5%	78,941	77,339	539,678	-	695,958

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2015						
Non-interest bearing:						
Trade accounts payable	-	3,248,977	-	-	-	3,248,977
Other liabilities	-	173,397	1,048,949	20,841	229,885	1,473,072
Interest bearing:						
Loans	8%	30,000	765,000	-	-	795,000
Debt securities issued	4.55%-5%	231,689	70,661,856	-	-	70,893,545
Finance lease	5%	82,151	80,544	696,870	-	859,565

(in thousands of tenge)

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

	Interest rate	1 month – 1 year	1-5 years	Unknown period	Total
2016					
Interest bearing:					
Short-term financial investments	12.9%	1,058,094	5,814	-	1,063,908
Short-term deposits	10.4%	24,416	-	-	24,416
Non-interest bearing:					
Cash and cash equivalents	-	9,561,854	-	-	9,561,854
Restricted cash	-	46,557	-	-	46,557
Trade accounts receivable	-	4,255,911	-	437,847	4,693,758
Other assets	-	357,598	44,923	217,325	619,846

	Interest rate	1 month – 1 year	1-5 years	Unknown period	Total
2015					
Interest bearing:					
Short-term financial investments	8.97%	33,239,723	-	-	33,239,723
Short-term deposits	4.6%-9.2%	90,535	-	-	90,535
Non-interest bearing:					
Cash and cash equivalents	-	19,097,014	-	-	19,097,014
Restricted cash	-	263,822	-	-	263,822
Trade accounts receivable	-	3,025,943	-	259,390	3,285,333
Other assets	-	368,585	20,742	-	389,327

30. FAIR VALUE

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

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

Cash and cash equivalents

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

Short-term financial investments

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

Trade and other accounts receivable and payable

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

(in thousands of tenge)

Loans

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

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

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

As of 31 December 2016 and 31 December 2015, the carrying amount of assets and liabilities of the Group were equal to its fair value.

Fair value hierarchy as at 31 December 2016

		At 31 December 2016		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Short-term financial investments	-	937,196	-	937,196
Non-financial assets				
Assets classified as held for sale	-	-	435,263	435,263
Financial liabilities				
Loans	-	30,011,697	-	30,011,697
Finance lease obligations	-	621,811	-	621,811

		At 31 December 2015		
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Short-term financial investments	-	30,503,718	-	30,503,718
Non-financial assets				
Assets classified as held for sale	-	-	592,755	592,755
Financial liabilities				
Loans	-	750,000	-	750,000
Debt securities issued	66,464,883	-	-	66,464,883
Finance lease obligations	-	750,273	-	750,273

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

31. RELATED PARTY TRANSACTIONS

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

(in thousands of tenge)

Trade accounts receivable (Note 11)

	31 December 2016	31 December 2015
Ministries and agencies	1,900,346	751,454
JSC NC KazMunaiGas	582,090	320,929
JSC Mangystaumunaigaz	358,670	303,441
Kazakhstan Paramaunt Engineering LLP	246,835	-
JSC NC Kazakhstan Temir Zholy	218,670	603,327
JSC ZIKSTO	212,780	-
JSC Locomotive Kurastyru Zauyty	144,093	192,017
Other	82,876	29,414
	3,746,360	2,200,582
Less: allowance for doubtful accounts of related parties	(68,810)	-
	3,677,550	2,200,582

Dividends receivable

	31 December 2016	31 December 2015
JSC ZIKSTO	10,755	15,755
MBM-Kirovets LLP	-	41,365
	10,755	57,120

Trade accounts payable (Note 19)

	31 December 2016	31 December 2015
Elkam LLC	427,663	323,095
Ministries and agencies	224,021	103,000
Eurocopter Kazakhstan engineering LLP	153,569	72,135
JSC KAMAZ-Engineering	128,718	92,095
Kazakhstan ASELSAN engineering LLP	25,276	145,276
JSC Aviarepair plant No.405	16,328	96,526
JSC Samruk Energy	7,724	8,672
JSC NC Kazakhstan Temir Zholy	90	10,194
CJSC Ulan	-	80,620
Samruk-Kazyna Corporate University LLP	-	55,289
Other	36,485	16,896
	1,019,874	1,003,798

Advances paid (Note 12)

	31 December 2016	31 December 2015
Kazakhstan ASELSAN engineering LLP	224,794	30,034
JSC NC KazMunaiGas	10,111	10,921
JSC Samruk Energy	4,602	231
JSC Kazpost	4,242	2,716
JSC NC Kazakhstan Temir Zholy	3,031	7,967
Other	69,922	3,664
	316,702	55,533

(in thousands of tenge)

Advances received

	31 December 2016	31 December 2015
Ministries and agencies	14,971,308	9,705,349
JSC NC KazMunaiGas	140,198	31,979
Other	30,800	34,588
	15,142,306	9,771,916

Sales of goods and services

	2016	2015
Ministries and agencies	59,105,312	51,498,039
JSC NC KazMunaiGas	2,769,177	4,240,845
JSC NC Kazakhstan Temir Zholy	1,301,906	1,633,259
JSC Kazakhstan Paramaunt Engineering	826,398	-
JSC Mangystaumunaigaz	544,659	457,395
JSC KAMAZ-Engineering	400,652	21,038
JSC ZIKSTO	291,270	714
JSC NAC Kazatomprom	274,964	70,413
JSC Aviarepair plant #405	79,148	5,050
CJSC Elkam-Neftemash	95,996	63,254
Tulpar Munai Service LLP	-	153,793
Argymak TransService LLP	-	107,781
Other	206,207	340,612
	65,895,689	58,592,193

Purchases of goods and services

	2016	2015
Kazakhstan ASELSAN engineering LLP	2,915,202	8,119,505
JSC Kamaz Engineering	2,848,946	5,306,673
JSC Aviarepair plant No.405	2,735,416	331,305
Elkam LLC	1,111,826	1,181,784
Samruk-Kazyna Corporate University LLP	355,177	270,062
Eurocopter Kazakhstan engineering LLP	162,812	64,406
Ministry and agencies	135,026	190,924
JSC NC KazMunaiGas	88,207	87,345
JSC Samruk Energy	65,167	68,905
JSC Kazkommertsbank	48,950	8,370
JSC NC Kazakshtan Temir Zholy	40,642	307,849
Other	188,044	113,164
	10,695,415	16,050,292

Finance income (Note 25)

	2016	2015
Kazakhstan Paramount engineering LLP	-	3,981,262
Kazakhstan ASELSAN engineering LLP	-	19,067
	-	4,000,329

(in thousands of tenge)

Finance costs (Note 26)

	2016	2015
JSC Samruk-Energy	288,177	248,673
	288,177	248,673

Remuneration of key management personnel

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

32. SUBSEQUENT EVENTS

On 2 February 2017, the Company concluded an agreement on sale of 100% shares in JSC 832 Motor-repair Plant of 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.

33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group were approved and authorized for issue by management on 3 March 2017.