# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

**Separate financial statements**
for the year ended 31 December 2015

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

**CONTENT**

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management of JSC Kazakhstan Engineering National Company (the "Company") is responsible for the preparation of the separate financial statements that present fairly the financial position of the Company as at 31 December 2015, and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The separate financial statements for the year ended 31 December 2015 were approved and authorised for issue by management of the Company on 5 March 2016.

**On behalf of the management of the Company**

| | | |
|---|---|---|
| **Idrissov E.S.**<br>**Chairman** | **Mynsharipova S.N.**<br>**Deputy Chairman** | **Alibova Zh.A.**<br>**Chief accountant** |

5 March 2016
Astana, the Republic of Kazakhstan

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.
Almaty, 050059
Republic of Kazakhstan

Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
deloitte.kz

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying separate financial statements of Joint Stock Company Kazakhstan Engineering National Company (the "Company"), which comprise the separate statement of financial position as at 31 December 2015, the separate statements of profit or loss and other comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Separate Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

**Basis for Qualified Opinion**

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

2) Further, as disclosed in Note 6 to the annual separate financial statements for 2014, during 2014 the Company contributed additional capital, in the form of transferring assets, to certain subsidiaries at revalued amount upon transfer. As disclosed in Note 24 to the annual separate financial statements for 2014, the difference between carrying value and the amount of contribution to subsidiaries was recorded in other income in the statement of profit or loss and other comprehensive income, which constitutes a departure from IFRS, which requires that income is recognized in the statement of profit or loss and other comprehensive income only in the event that the transaction results in an increase in economic benefits. Our opinion on the separate financial statements for the current period is also modified because of the effect of this matter on the balances of Investments in subsidiaries and Accumulated deficit as at 31 December 2015.

**Qualified Opinion**

In our opinion, with the exception of the matter described in the second Basis for Qualified Opinion paragraph, and the possible effects of the matter described in the first Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Other Matter**

We draw attention to Note 3 to the separate financial statements, which describes that the separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. The Company also prepares consolidated financial statements of the Company and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved by management on 5 March 2016. Our opinion is not qualified in respect of this matter.

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

Daulet Kuatbekov
Qualified auditor
Qualification certificate
No.0000523,
dated 15 February 2002,
Republic of Kazakhstan

DELOITTE, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

5 March 2016
Almaty, the Republic of Kazakhstan

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

### SEPARATE STATEMENT OF FINANCIAL POSITION
### AS AT 31 DECEMBER 2015
*(in thousands of tenge)*

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 6 | 582,711 | 668,850 |
| Intangible assets | | 193,241 | 223,573 |
| Investments in subsidiaries | 7 | 13,354,908 | 8,511,642 |
| Investments in associates and joint ventures | 8 | 4,661,696 | 4,786,156 |
| Other financial assets | 9 | 260,000 | 2,875,478 |
| Deferred tax assets | 26 | 2,775,280 | 976,062 |
| Other non-current assets | | 5,185 | 5,185 |
| | | 21,833,021 | 18,046,946 |
| CURRENTS ASSETS: | | | |
| Inventories | | 33,696 | 35,504 |
| Trade and other accounts receivable | 10 | 5,793,124 | 2,201,636 |
| Income tax prepaid | | 795,644 | 430,948 |
| Short-term financial investments | 11 | 27,752,319 | 27,961,936 |
| Other financial assets | 9 | 16,274,573 | 10,059,635 |
| Advances to related parties | 29 | 5,623,310 | 2,887 |
| Other current assets | 12 | 3,987,720 | 539,516 |
| Cash | 13 | 14,175,232 | 7,133,194 |
| | | 74,435,618 | 48,365,256 |
| Assets classified as held for sale | 14 | 143,980 | 143,980 |
| Total current assets | | 74,579,598 | 48,509,236 |
| TOTAL ASSETS | | 96,412,619 | 66,556,182 |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Charter capital | 15 | 21,476,802 | 21,476,802 |
| Additional paid-in-capital | 16 | 412,406 | 412,406 |
| Accumulated deficit | | (5,461,891) | (2,158,124) |
| | | 16,427,317 | 19,731,084 |
| NON-CURRENT LIABILITIES: | | | |
| Debt securities | 17 | - | 36,255,626 |
| Employee benefits obligations | | 2,438 | 2,438 |
| Other long-term liabilities | | 8 | - |
| | | 2,446 | 36,258,064 |

## SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
## AS AT 31 DECEMBER 2015
*(in thousands of tenge)*

| | Notes | 31 December 2015 | 31 December 2014 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Current portion of debt securities | 17 | 68,036,056 | 10,409,721 |
| Trade and other payables | 18 | 1,929,708 | 29,992 |
| Income tax payable | | 1,680 | - |
| Other taxes payable | 19 | 1,275,805 | 63,162 |
| Employee benefits obligations | | 756 | 756 |
| Advances from related parties | 29 | 8,409,878 | - |
| Other current liabilities | | 328,973 | 63,403 |
| | | 79,982,856 | 10,567,034 |
| TOTAL EQUITY AND LIABILITIES | | 96,412,619 | 66,556,182 |

**On behalf of the management of the Company**

**Idrissov E.S.**
**Chairman**

**Mynsharipova S.N.**
**Deputy Chairman**

**Alibova Zh.A.**
**Chief accountant**

5 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements. The independent auditor's report is on pages 2-3.

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

**SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS**
**FOR THE YEAR ENDED 31 DECEMBER 2015**
*(in thousands of tenge)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| REVENUE | 20 | 46,910,162 | 71,647 |
| COST OF SALES | 21 | (45,741,385) | (71,109) |
| GROSS PROFIT | | 1,168,777 | 538 |
| Administrative expenses | 22 | (1,741,786) | (1,611,772) |
| Selling expenses | | (33,979) | (171,125) |
| Other income, net | 23 | 732,339 | 1,128,513 |
| Foreign exchange loss | 28 | (14,404,900) | (1,817,778) |
| Dividends income | | 4,195,247 | 2,428,088 |
| Finance income | 24 | 7,982,638 | 2,540,236 |
| Finance costs | 25 | (2,860,985) | (2,526,580) |
| Loss before tax | | (4,962,649) | (29,880) |
| Income tax benefit | 26 | 1,799,218 | 429,989 |
| (LOSS)/PROFIT AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR | | (3,163,431) | 400,109 |

**On behalf of the management of the Company**

| | | |
|---|---|---|
| **Idrissov E.S.** | **Mynsharipova S.N.** | **Alibeva Zh.A.** |
| **Chairman** | **Deputy Chairman** | **Chief accountant** |

5 March 2016
Astana, the Republic of
Kazakhstan

The notes below form an integral part of the separate financial statements. The independent auditor's report is on pages 2-3.

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

### SEPARATE STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED 31 DECEMBER 2015
*(in thousands of tenge)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **OPERATING ACTIVITY:** | | | |
| Loss before income tax | | (4,962,649) | (29,880) |
| Adjustments for: | | | |
| Amortisation and depreciation | 22 | 117,298 | 85,397 |
| Foreign exchange loss | 28 | 14,404,900 | 1,817,778 |
| Allowance for doubtful accounts | 22 | (330,181) | (471,101) |
| Allowance for impairment of investments | 22 | 124,460 | 196,280 |
| Provision for employee benefits | | - | 3,194 |
| Gain on disposal of property, plant and equipment | | 3,805 | 214 |
| Difference between the carrying value of property, plant and equipment, investment property and inventory and the amount of contribution to subsidiaries | 23 | - | (552,501) |
| Unused vacation provision and other remunerations | 22 | 166,339 | 33,276 |
| Dividends income | | (4,195,247) | (2,428,088) |
| Finance income | 24 | (7,982,638) | (2,540,236) |
| Finance costs | 25 | 2,860,985 | 2,526,580 |
| Cash flows from operating activity before changes in working capital | | 207,072 | (1,359,087) |
| Changes in working capital: | | | |
| Change in trade and other accounts receivables | | (186,033) | 63,020 |
| Change in other taxes recoverable | | 1,962 | (244,508) |
| Change in advances to related parties and other assets | | (8,493,215) | 15,876 |
| Change in inventories | | (2,661) | (2,522) |
| Change in trade and other payables | | 1,865,152 | (1,216,115) |
| Change in other taxes payable | | 1,196,422 | 160,251 |
| Change in advances from related parties and other liabilities | | 8,508,595 | (147,694) |
| Cash generated from/(used in) operating activity | | 3,097,294 | (2,730,779) |
| Interest paid | | (2,762,395) | (2,179,012) |
| Net cash received from/(used in) operating activity | | 334,899 | (4,909,791) |
| **INVESTING ACTIVITY:** | | | |
| Acquisition of property, plant and equipment | | (10,029) | (234,047) |
| Acquisition of intangible assets | | - | (1,704) |
| Loans given to related parties | 9 | (13,397,053) | (7,551,123) |
| Proceeds from repayments of loans given to related parties | 9 | 15,090,469 | 9,034,941 |
| Contributions to charter capital of joint ventures and subsidiaries | 7, 8 | (4,833,000) | (5,000,000) |
| Placement of short-term investments | | (7,208,796) | (59,970,018) |
| Withdrawal of short-term investments | | 24,618,181 | 54,824,078 |
| Dividends received | | 900,096 | 472,109 |
| Interest received | | 2,047,893 | 1,838,068 |
| Net cash generated by/(used in) investing activity | | 17,207,761 | (6,587,696) |

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

**SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)**
**FOR THE YEAR ENDED 31 DECEMBER 2015**
*(in thousands of tenge)*

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **FINANCING ACTIVITY:** | | | |
| Contribution to charter capital | 15 | - | 9,375,000 |
| Repayment of debt securities | 17 | (10,384,000) | - |
| Dividends paid | | (140,336) | (652,286) |
| Net cash (used in)/generated by financing activity | | (10,524,336) | 8,722,714 |
| CHANGE IN CASH, net | | 7,018,324 | (2,774,773) |
| CASH, at the beginning of the year | 13 | 7,133,194 | 9,281,424 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 23,714 | 626,543 |
| CASH, at the end of the year | 13 | 14,175,232 | 7,133,194 |

**On behalf of the management of the Company**

| | | |
|---|---|---|
| **Idrissov E.S.** | **Mynsharipova S.N.** | **Alibova Zh.A.** |
| **Chairman** | **Deputy Chairman** | **Chief accountant** |

5 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements. The independent auditor's report is on pages 2-3.

## SEPARATE STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2015
*(in thousands of tenge)*

| | Note | Charter capital | Additional paid-in capital | Accumulated deficit | Total |
|---|---|---|---|---|---|
| At 1 January 2014 | | 12,101,802 | 412,406 | (1,905,947) | 10,608,261 |
| Profit and total comprehensive income for the year | | - | - | 400,109 | 400,109 |
| Contribution to charter capital | 15 | 9,375,000 | - | - | 9,375,000 |
| Dividends | 15 | - | - | (652,286) | (652,286) |
| At 31 December 2015 | | 21,476,802 | 412,406 | (2,158,124) | 19,731,084 |
| Loss and total comprehensive loss for the year | | - | - | (3,163,431) | (3,163,431) |
| Dividends | 15 | - | - | (140,336) | (140,336) |
| At 31 December 2015 | | 21,476,802 | 412,406 | (5,461,891) | 16,427,317 |

**On behalf of the management of the Company**

**Idrissov E.S.**
**Chairman**

**Mynsharipova S.N.**
**Deputy Chairman**

**Alibova Zh.A.**
**Chief accountant**

5 March 2016
Astana, the Republic of Kazakhstan

The notes below form an integral part of the separate financial statements. The independent auditor's report is on pages 2-3.

## 1. GENERAL INFORMATION

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

As at 31 December 2015 and 2014, the Company's sole shareholder is JSC Sovereign Wealth Fund Samruk-Kazyna (the "Shareholder"). On 15 June 2010, 100% of its shares were transferred for asset management to Ministry of Defence of the Republic of Kazakhstan. As such, the transfer of shares to trust management did not result in transfer of ownership rights and control to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company is:

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

In May 2015 the Company was appointed as a single operator of the state defence orders of the Republic of Kazakhstan. The Company started to generate revenue from this new scheme of the state defence order in July 2015.

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

Number of employees of the Company as at 31 December 2015 was 87 people (31 December 2014: 93 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 Company is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and the financial position of the Company is at this stage difficult to determine.

*(in thousands of tenge)*

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has not applied any new or revised standards in the current year.

***Standards and interpretations issued but not yet effective:***

The Company has not applied the following new and revised IFRS and IFRIC (issued but not yet in force):

| | **Effective for reporting periods starting on and after** |
|---|---|
| IFRS 9 *Financial Instruments* | 1 January 2018 |
| IFRS 15 *Revenue from Contracts with Customers* | 1 January 2018 |
| IFRS 16 *Leases* | 1 January 2019 |
| Amendments to IAS 1 *Disclosure Initiative* | 1 January 2016 |
| Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 |
| Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception | Date will be determined by IASB[1] |
| Annual Improvements to IFRSs 2012-2014 Cycle | 1 January 2016 |

Certain IFRS have been revised and new standards issued that have not yet become effective. The most significant future change is expected from IFRS 9, IFRS 15 and IFRS 16.

*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. IFRS 9 is aiming at replacing IAS 39 *Financial Instruments: Recognition and Measurement.*

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.
The management of the Company anticipates that the application of IFRS 9 in the future may have an 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*

In May 2014, IFRS 15 was issued which 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 standard is effective for annual periods beginning on or after 1 January 2017.

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 and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

[1] Improvements were issued in September 2014 and were assumed to be effective for annual periods beginning on or after 1 January 2016. In December 2015 IASB delayed the effective date on uncertain period as research project on equity method will be finished.

The five steps in the model are as follows:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, the Company 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 on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Company anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Company performs a detailed review.

The Company did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

*IFRS 16 Leases*

IFRS 16 Leases brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating of finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Company anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Company performs a detailed review.

The Company did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

***Statement of compliance with IFRS***

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

These separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. Subsidiaries were not consolidated to these separate financial statements.

Investments to subsidiaries, associates and joint ventures were measured at cost less impairment losses. These separate financial statements shall be read in conjunction with the consolidated financial statements which were authorized for issue by the Company management on 5 March 2016.

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

***Basis of measurement***

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

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

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

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

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

***Functional and presentation currency***

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

***Going concern basis***

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

As at 31 December 2015, current liabilities of the Company exceeded its current assets by 5,403,258 thousand tenge (31 December 2014: current assets of the Company exceeded its current liabilities by 37,942,202 thousand tenge). The Company's Eurobonds payable of 68,036,056 thousand tenge are due on 3 December 2016.

*(in thousands of tenge)*

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

- In 2015 the Company was appointed as a single operator of the state defence order of the Republic of Kazakhstan, which is expected to grow in 2016 (Note 1);
- The Company developed the plan for cash accumulation to repay the debt securities issued. As at 5 March 2016 the Company accumulated 125,754 thousand US dollars, which have been placed as bank deposits at the interest rate of 6%-7%;
- The Company also expects cash inflows from the privatisation plan by disposing of assets classified as held for sale (Note 14);
- The Company is going to obtain refinancing from financial institutions or related parties to repay residual amount of Eurobonds.

**Significant accounting policies**

***Property, plant and equipment***

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

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

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

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

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

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

***Impairment of tangible and intangible assets***

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

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

***Investments in subsidiaries***

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

***Investments in associates and joint ventures***

Investments in associates and joint ventures are measured at cost less impairment losses in these separate financial statements. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

***Recognition of financial instruments***

The Company recognizes financial assets and liabilities in its separate statement of financial position when, and only when, it becomes a part of the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration received or paid including or net of any transaction costs incurred, and subsequently recorded at the fair value or amortized value.

The fair value is usually determined with a reference to the official market quotes. If the market quotes are not available, the fair value is determined using generally accepted evaluation methods, such as discounted future cash flows based on market data.

The amortized value is determined using the effective interest method. The effective interest rate is the rate of discounting expected future cash inflows (including all received or made payments on a debt instrument, being an integral part of an effective interest rate, transaction processing costs and other premiums or discounts) for the expected period until repayment of a debt instrument or (if applicable) for a shorter period, to the carrying amount at the moment of recognition of a debt instrument.

*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*

Cash comprise cash in bank and cash on hand.

*Trade accounts receivable*

Trade accounts receivable are recognised and carried in the financial statements at the original invoice amount less an allowance for any doubtful debts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported as profit or loss in the reporting period in which adjustments become necessary. Bad debts are written off when identified against the allowances previously accrued.

*Loans and other receivables*

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

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

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. 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, the following occurred: a significant change in the estimated future cash flows of the investment; significant financial difficulty of the issuer or counterparty; breach of contract, such as a default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or the disappearance of an active market for that financial asset because of financial difficulties. For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets 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 the Company 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.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs. All non-monetary contributions to the charter capital are measured at fair value by an independent appraiser at the date of transfer. Any excess of the fair value of the funds received over the nominal value of the shares issued is recognised as additional paid-in capital.

The funds received for unissued ordinary shares are recognised as unissued share capital till the issue of ordinary shares when such proceeds are transferred to the share capital.

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.

Financial liabilities are represented by contractual agreements recognised when liabilities under contracts arise.

*Trade and other accounts payables*

Trade and other payables are initially measured at fair value and subsequently revalued at amortised cost using the effective interest method.

*Interest-bearing loans and borrowings*

All loans and borrowings are initially recognised at cost, which represents fair value of the consideration received less directly attributable borrowing costs.

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

Income and expenses, other than borrowing costs eligible for capitalization (for example, commission on guarantees of third parties), are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as during accounting for the amortisation.

*Offsets*

Financial assets and liabilities can be offset and reported at the net amount in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

*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 applicable, part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without a material delay to a third party under a "pass-through" arrangement and has transferred substantially all the risks and rewards of the asset; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

***Financial liabilities***

A financial liability (or a part of a financial liability) is derecognised when the obligation under the liability is discharged or cancelled or expires.

***Pension fund liabilities***

The Company contributes 10% of each employee's salary to an employee pension fund, but no more than 171,443 tenge per month (2014: no more than 149,745 tenge per month). Pension fund contributions are withheld from employee salaries and included in payroll costs in the separate statement of comprehensive income.

***Provisions***

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that the obligation can be reliably estimated. The amount recognised as a provision represents the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainty surrounding the obligation. Where 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 (if the effect of the time value of money is significant).

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.

***Revenue recognition***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

Revenue from the sale of goods is recognised when the goods are delivered and the title has been transferred.
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

*Dividends and interests income*

Dividends income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

***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.

***Foreign currency transactions***

In preparing the separate financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign 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.

***Taxation***

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

***Current tax***

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

***Deferred tax***

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

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

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

*Current and deferred tax for the year*

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

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the separate financial statements in conformity with IFRS requires the management of the Company to make judgments and use subjective estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the effective date of the separate financial statements and reported amounts of revenues and expenses during the reporting period. Despite the fact that these estimates are based on historic data and other material factors, the events or actions can occur in a way that actual outcomes could differ from these estimates.

**Critical judgements in applying accounting policies**

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

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

Eurocopter Kazakhstan engineering LLP, Thales Kazakhstan Engineering LLP and Kazakhstan ASELSAN engineering LLP are limited liability 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 Company reviews the estimated useful lives of property, plant and equipment at the end of each 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 them as at the date of these separate financial statements.

*Impairment of assets*

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

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

*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.

*(in thousands of tenge)*

The Company's management believes that the Company has paid or accrued all applicable taxes. In unclear cases, the Company has accrued tax liabilities based on management's best estimate. Company's policy requires the recognition of provisions 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 2015. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

## 5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

For the purpose of better presentation of information and understandability of the separate financial statements, the Company reclassified certain items in the separate statement of financial position. Accordingly, the comparative amounts as at 31 December 2014 have been reclassified.

*Effect on the separate statement of financial position*

| | As previously reported | Reclassifications | As reclassified |
|---|---|---|---|
| **At 31 December 2014** | | | |
| **Non-current assets** | | | |
| Investment in joint ventures | 4,504,031 | (4,504,031) | - |
| Investments in associates | 282,125 | (282,125) | - |
| Investments in associates and joint ventures | - | 4,786,156 | 4,786,156 |
| **Total non-current assets** | 18,046,946 | - | 18,046,946 |
| | | | |
| **Current assets** | | | |
| Other current assets | 350,276 | (2,887) | 347,389 |
| Advances given to related parties | - | 2,887 | 2,887 |
| **Total current assets** | 48,509,236 | - | 48,509,236 |

*Effect on the separate statement of profit or loss and other comprehensive income*

| | As previously reported | Reclassifications | As reclassified |
|---|---|---|---|
| **2014** | | | |
| Administrative expenses | (1,850,123) | 238,351 | (1,611,772) |
| Recovery of provisions | 238,351 | (238,351) | - |
| Other income | 1,288,252 | (1,288,252) | - |
| Other expenses | (159,739) | 159,739 | - |
| Other income, net | - | 1,128,513 | 1,128,513 |

*(in thousands of tenge)*

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and construction | Machinery, equipment and vehicles | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2014 | 33,164 | 405,199 | 112,952 | 122,307 | 8,033 | 681,655 |
| Additions | - | - | 115,092 | 80,422 | 44,179 | 239,693 |
| Internal movement | - | - | 44,179 | - | (44,179) | - |
| Disposals | (1,742) | - | (3,518) | (26,350) | - | (31,610) |
| At 31 December 2014 | 31,422 | 405,199 | 268,705 | 176,379 | 8,033 | 889,738 |
| Additions | - | - | - | 9,636 | 393 | 10,029 |
| Internal movement | - | - | 393 | - | (393) | - |
| Disposals | - | - | (17,697) | (6,230) | - | (23,927) |
| At 31 December 2015 | 31,422 | 405,199 | 251,401 | 179,785 | 8,033 | 875,840 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2014 | - | (99,279) | (31,565) | (52,680) | - | (183,524) |
| Charge for the year | - | (15,547) | (24,654) | (23,911) | - | (64,112) |
| Disposals | - | - | 2,775 | 23,973 | - | 26,748 |
| At 31 December 2014 | - | (114,826) | (53,444) | (52,618) | - | (220,888) |
| Charge for the year | - | (15,547) | (38,552) | (32,867) | - | (86,966) |
| Disposals | - | - | 8,806 | 5,919 | - | 14,725 |
| At 31 December 2015 | - | (130,373) | (83,190) | (79,566) | - | (293,129) |
| **Carrying value:** | | | | | | |
| At 31 December 2015 | 31,422 | 274,826 | 168,211 | 100,219 | 8,033 | 582,711 |
| At 31 December 2014 | 31,422 | 290,373 | 215,261 | 123,761 | 8,033 | 668,850 |

Cost of fully depreciated property, plant and equipment as at 31 December 2015 and 2014 was 18,108 thousand tenge and 38,733 thousand tenge, respectively.

As at 31 December 2015 and 2014, the Company had property, plant and equipment with the carrying value of 181,897 thousand tenge and 195,262 thousand tenge, respectively, which were removed from active service and put into conservation. The Company management believes that these property, plant and equipment are not impaired as their availability allows the Company to maintain licenses required to carry out its principal activity.

*(in thousands of tenge)*

## 7. INVESTMENTS IN SUBSIDIARIES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Kazakhstan Aviation Industry LLP | 5,005,648 | 185,851 |
| JSC Semey Engineering | 2,864,053 | 2,864,053 |
| JSC Kirov Machinery Plant | 1,804,110 | 1,804,110 |
| SRI Kazakhstan Engineering LLP | 1,008,843 | 985,374 |
| JSC Petropavlovsk heavy machinery construction plant | 873,480 | 873,480 |
| JSC S.M. Kirov Plant | 493,386 | 493,386 |
| JSC Tynys | 484,162 | 484,162 |
| JSC Semipalatinsk Machinery Construction Plant | 437,472 | 437,472 |
| JSC KazEng Electronics | 429,789 | 429,789 |
| JSC Munaymash | 212,567 | 212,567 |
| JSC Omega EngineeringInstrument Making Plant | 144,472 | 144,472 |
| JSC Uralsk Plant Zenith | 120,638 | 120,638 |
| JSC Research Institute Hydropribor | 102,402 | 102,402 |
| JSC 811 Motor-repair Plant KE | 90,106 | 90,106 |
| JSC 832 Motor-repair Plant KE | 71,689 | 71,689 |
| | 14,142,817 | 9,299,551 |
| Less: allowance for impairment | (787,909) | (787,909) |
| | 13,354,908 | 8,511,642 |

In March 2004, the Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan ("Former Shareholder") had made a contribution to the charter capital of the Company by shares in subsidiaries in the amount of 4,498,094 thousand tenge, which were valued by independent appraisers. In the financial statements as at 31 December 2011, investments in subsidiaries were stated at cost less impairment losses. In 2012, the Company made a decision to reflect the investments at their revalued amount at the date of contribution and recognised the adjustment in the amount of 3,330,650 thousand tenge in the separate statement of changes in equity.

During 2015, the Company made additional contribution to Kazakhstan Aviation Industry LLP in the amount of 4,819,797 thousand tenge and to SRI Kazakhstan Engineering LLP in the amount of 23,469 thousand tenge. These contributions were mainly made by cash.

As at 31 December 2015 and 2014, the Company classified its investment interest of 51% in JSC 832 Motor-repair Plant KE and 49% in JSC Omega Engineering Plant as assets held for sale, with carrying amount, net of impairment reserve, of 27,636 thousand tenge and 85,337 thousand tenge, respectively (Note 14).

*(in thousands of tenge)*

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

| Subsidiaries | Principal activity | Place of incorporation | Ownership share 31 December 2015 | Ownership share 31 December 2014 |
|---|---|---|---|---|
| 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 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% |
| SRI Kazakhstan Engineering LLP | Design and development of new types of special products for the defence industry | Kazakhstan | 100% | 100% |
| JSC S.M. Kirov Plant | Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery | Kazakhstan | 84% | 84% |
| JSC Tynys | Medical equipment, gas drive fittings, aviation products, tubes, extinguishing | Kazakhstan | 99% | 99% |
| JSC Semipalatinsk Machinery Construction Plant | Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment | Kazakhstan | 99% | 99% |
| JSC KazEng Electronics | Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies | Kazakhstan | 100% | 100% |
| JSC Omega Engineering 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 Munaymash | Downhole sucker rod pumps for oil and gas sector, wide range goods | Kazakhstan | 52% | 52% |
| Kazakhstan Aviation Industry LLP | Maintenance and support of aviation technics | Kazakhstan | 100% | 100% |
| JSC 832 Motor-repair Plant KE | Repair of automotive vehicles | Kazakhstan | 100% | 100% |
| JSC Uralsk plant Zenith | Lifeboats and ships for Naval Forces of Kazakhstan; engineering and manufacture of steel constructions, spare parts for oil and gas complex | Kazakhstan | 95% | 95% |
| JSC 811 Motor-repair Plant KE | Repair of automotive vehicles, armour, power packs and power plants; modernization of equipment | Kazakhstan | 100% | 100% |
| JSC Research Institute Hydropribor | Engineering and research as well as manufacturing of sea and river lifeboats, ships, vessels and other water crafts and underwater vehicles, surface and air robots and lifeboats, equipment for underwater examination and repair of pipelines, boring rigs, underwater facilities | Kazakhstan | 93% | 93% |

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

*(in thousands of tenge)*

## 8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

| Name | Principal activity | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|---|
| | | Cost | Ownership interest, % | Cost | Ownership interest, % |
| **Associates:** | | | | | |
| KAMAZ-Semei LLP | Commercial activity | 1,000 | 49% | 1,000 | 49% |
| JSC KAMAZ-Engineering | Manufacture and sale of buses, cars, special-purpose equipment and its spare parts | 207,000 | 25% | 207,000 | 25% |
| Indra Kazakhstan engineering LLP | Manufacture of radar systems, systems of electronic warfare and intelligence | 124,460 | 49% | 124,460 | 49% |
| LLP Kazakhstan engineering Distribution | Sale of products manufactured by the entities of the Group, attracting investments, participation in state programmes and tenders for equipment supply | 8,174 | 49% | 8,174 | 49% |
| JSC ZIKSTO | Repair of freight rail cars, repair of wheel sets with replacement of elements | - | 42.13% | - | 42.13% |
| Kaz-ST Engineering Bastau LLP | Investment holding activity and provision of defence, engineering services | - | 49% | - | 49% |
| | | 340,634 | | 340,634 | |
| Less: allowance for impairment | | (182,969) | | (58,509) | |
| **Total investments in associates** | | 157,665 | | 282,125 | |
| **Joint ventures:** | | | | | |
| 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 | 87,336 | 50% | 87,336 | 50% |
| Kazakhstan ASELSAN engineering LLP | Manufacture of electronic and optical devices | 3,353,818 | 50% | 3,353,818 | 50% |
| Eurocopter Kazakhstan engineering LLP | Manufacture and technical maintenance of helicopters | 1,150,213 | 50% | 1,150,213 | 50% |
| | | 4,591,367 | | 4,591,367 | |
| Less: allowance for impairment | | (87,336) | | (87,336) | |
| **Total investments in joint ventures** | | 4,504,031 | | 4,504,031 | |

As at 31 December 2015 and 2014, the Company classified its investment interest of 42.13% in JSC ZIKSTO and 49% in Kaz-ST Engineering Bastau LLP as assets held for sale, with carrying amount, net of impairment provision, of 20,455 thousand tenge and 10,552 thousand tenge, respectively (Note 14).

During 2014, the Company made cash contribution to the charter capital of Kazakhstan ASELSAN engineering LLP in the amount of 3,000,000 thousand tenge.

*(in thousands of tenge)*

The movement in allowance for impairment for the years ended 31 December 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---|---|---|
| At the beginning of the year | (145,845) | (90,821) |
| Accrued during the year (Note 22) | (124,460) | (87,336) |
| Transfer to assets held for sale | - | 32,312 |
| At the end of the year | (270,305) | (145,845) |

During 2015 the management of the Company carried out impairment test for investment in associate of Indra Kazakhstan engineering LLP, as the result impairment loss for the amount of 124,460 thousand tenge, was recognised.

## 9. OTHER FINANCIAL ASSETS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Loans given | 15,467,348 | 12,935,113 |
| Financial asset designated as at fair value through profit or loss | 1,067,225 | - |
| | 16,534,573 | 12,935,113 |

Loans given are presented as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| JSC Semey Engineering | 5,200,477 | 3,126,005 |
| Kazakhstan Aviation Industry LLP | 2,644,533 | 2,248,528 |
| JSC Kirov Machinery Plant | 2,437,320 | 2,345,358 |
| JSC Petropavlovsk Heavy Machinery Building Plant | 1,999,390 | 2,075,810 |
| JSC Tynys | 1,665,379 | 1,675,510 |
| JSC 811 Motor-repair Plant KE | 1,396,740 | - |
| JSC Semipalatinsk Machinery Construction Plant | 1,063,674 | 791,575 |
| JSC S.M. Kirov Plant | 797,190 | 924,463 |
| JSC Omega Engineering Plant | 138,920 | 166,842 |
| Kazakhstan ASELSAN engineering LLP | - | 1,476,364 |
| | 17,343,623 | 14,830,455 |
| Less: fair value adjustment | - | (19,067) |
| | 17,343,623 | 14,811,388 |
| Allowance for doubtful debts | (1,876,275) | (1,876,275) |
| | 15,467,348 | 12,935,113 |
| Current portion | 13,986,290 | 9,781,374 |
| Accrued interest | 1,221,058 | 278,261 |
| Non-current portion | 260,000 | 2,875,478 |
| | 15,467,348 | 12,935,113 |

*(in thousands of tenge)*

*Loans given*

During 2015, the Company provided loans with the interest rate of 7.5%-13.5% to subsidiaries and related parties in the amount of 13,397,053 thousand tenge (2014: 7,551,123 thousand tenge), including loan to Kazakhstan Paramount engineering LLP in the amount of 6,170,000 thousand tenge with interest rate of 13.5% on the implementation of the project Development of production of military and civil engineering in the Republic of Kazakhstan with maturity of 5 years. Kazakhstan Paramount engineering LLP is joint-venture of Kazakhstan engineering Distribution LLP and Paramount Group Limited. Kazakhstan engineering Distribution LLP is associate of the Company.

During 2015, Kazakhstan ASELSAN engineering LLP repaid all its obligations related to the loan in the amount of 1,065,600 thousand tenge. A residual amount of 410,764 thousand tenge was offset against payables to Kazakhstan ASELSAN engineering LLP related to a State defence order.

During 2015, subsidiaries and related parties repaid loan given in the amount of 15,090,469 thousand tenge (2014: 9,034,941 thousand tenge).

For the years ended 31 December 2015 and 2014, income from amortisation of fair value adjustment amounted to 19,067 thousand tenge and 104,817 thousand tenge, respectively (Note 24).

For the years ended 31 December 2015 and 2014, interest income on loans given amounted to 1,485,842 thousand tenge and 770,276 thousand tenge, respectively (Note 24).

*Financial asset designated as at fair value through profit or loss*

During 2015, the Company provided short-term loans to Kazakhstan Paramount engineering LLP and JSC 811 Motor-repair Plant KE in the amount of 6,170,200 thousand tenge and 1,386,000 thousand tenge, respectively, at annual interest rate of 13.5%. The loan agreements included the term on loan indexation in the case of tenge/US dollar exchange rate increase by more than 5%. This indexation term represents a foreign exchange rate cap resulting in an embedded derivative, which was recognized at fair value of 4,685,389 thousand tenge through profit or loss. By the end of 2015 Kazakhstan Paramount engineering LLP fully repaid its obligation in the amount of 10,353,103 thousand tenge, including amounts related to this indexation (Note 24).

## 10. TRADE AND OTHER ACCOUNTS RECEIVABLE

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Trade receivables from related parties (Note 29) | 6,112,028 | 27,673 |
| Trade receivables from subsidiaries (Note 29) | 55,538 | 2,633,336 |
| Other receivables | 5,602 | 30,852 |
| | 6,173,168 | 2,691,861 |
| Less: allowance for doubtful debts from subsidiaries | (380,044) | (490,225) |
| | 5,793,124 | 2,201,636 |

As at 31 December 2015 and 2014 trade and other receivables are denominated in following currencies:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Tenge | 5,793,124 | 2,176,386 |
| U.S. dollars | - | 25,250 |
| | 5,793,124 | 2,201,636 |

*(in thousands of tenge)*

## 11. SHORT-TERM FINANCIAL INVESTMENTS

As at 31 December 2015 and 2014, short-term financial investments represented bank deposits at JSC Tsesnabank and JSC ATF bank. Deposits mature in 12 months and bear an annual interest rate in the range of 6% (2014: 5-9%).

For 2015 accrued interest amounted to 1,666,450 thousand tenge (2014: 1,249,725 thousand tenge).

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

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| U.S. dollars | 27,752,319 | 27,761,936 |
| Tenge | - | 200,000 |
| | 27,752,319 | 27,961,936 |

## 12. OTHER CURRENT ASSETS

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Short-term advances to third parties | 3,644,103 | 10,134 |
| Receivables from related parties for penalties and fines on loans given | 343,135 | 594,314 |
| Prepaid expenses | 27,263 | 21,327 |
| Other current assets | 31,505 | 192,027 |
| | 4,046,006 | 817,802 |
| Less: allowance for doubtful debts from related parties | (58,286) | (278,286) |
| | 3,987,720 | 539,516 |

Short-term advances given to third parties as at 31 December 2015 include short-term advances given to suppliers for goods and services in the amount of 3,619,452 thousand tenge for the execution of the state defence orders (Note 1) (31 December 2014: nil).

As at 31 December 2015 and 2014 other current assets are denominated in tenge.

## 13. CASH

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Cash on bank accounts in tenge | 14,175,232 | 7,133,194 |
| | 14,175,232 | 7,133,194 |

## 14. ASSETS CLASSIFIED AS HELD FOR SALE

In July-August 2014, within the privatization plan for 2015-2016 approved by the Government of the Republic of Kazakhstan, the Shareholder approved a list of the Company's subsidiaries, associates and joint ventures subject to disposal. Investments, whose sale were highly probable in 2015, were classified as assets held for sale in the standalone statement of financial position for the amount of 143,980 thousand tenge as at 31 December 2014. It is represented by investment in subsidiaries of 51% in JSC 832 Motor-repair Plant KE and 49% in JSC Omega Engineering Plant (Note 7) and investments in associated companies of 42.13% in JSC ZIKSTO and 49% in Kaz-ST engineering Bastau LLP (Note 8). During 2015 the management took actions to sell these assets through auctions held by JSC Information-stocking Center. As at 31 December 2015 the management's actions to sell these assets are still ongoing. Management of the Company anticipates that the proceeds from the sale of these assets will exceed its carrying amount and, accordingly, no impairment was recognized upon their classification as held for sale. Management of the Company expects that the sale of 51% in JSC 832 Motor-repair Plant KE and 49% in JSC Omega Engineering Plant will not lead to the loss of control of subsidiaries.

As at 30 December 2015 Government of the Republic of Kazakhstan authorized new privatization plan for 2016-2020, which included the companies listed in the previous resolution.

## 15. CHARTER CAPITAL

As at 31 December 2015 and 2014, authorized, issued and fully paid charter capital of the Company consists of common shares of 21,476,802 shares with par value of 1,000 tenge, each.

During 2014 the Company issued additional common shares of 9,375,000 shares with par value of 1,000 tenge each. The issued common shares were purchased by the Committee of property and privatization of the Ministry of Finance of Kazakhstan (hereafter – "Ministry of Finance"). On 15 December 2014, the Ministry of Finance transferred all holding shares of the Company to JSC SWF Samruk-Kazyna.

In 2015 and 2014, the Company declared and paid dividends to the Shareholder in the amount of 140,336 thousand tenge and 652,286 thousand tenge, respectively.

As at 31 December 2015 and 2014, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

## 16. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2015 and 2014, additional paid-in capital amounted to 412,406 thousand tenge. Additional paid-in capital included the fair value adjustment on loan received from the Shareholder at interest rate below the market rate, net of deferred tax effect.

*(in thousands of tenge)*

## 17. DEBT SECURITIES

| | Maturity | Coupon rate | 31 December 2015 | 31 December 2014 |
|---|---|---|---|---|
| Bonds issued at price of 95.2341% -Tranche 1 | 6 November 2015 | 5% | - | 4,534,000 |
| Bonds issued at price of 96.4613% - Tranche 2 | 6 November 2015 | 5% | - | 1,200,000 |
| Bonds issued at price of 96.9239% - Tranche 3 | 6 November 2015 | 5% | - | 1,000,000 |
| Bonds issued at price of 97.3266% - Tranche 4 | 6 November 2015 | 5% | - | 1,885,000 |
| Bonds issued at price of 97.8540% - Tranche 5 | 6 November 2015 | 5% | - | 1,765,000 |
| Eurobonds issued at a price of 100% | 3 December 2016 | 4.55% | 68,002,000 | 36,470,000 |
| Including/(less): | | | | |
| Accrued coupon | | | 231,689 | 202,334 |
| Transaction costs | | | (197,633) | (214,374) |
| Discount on debt securities issued | | | - | (176,613) |
| Total bonds placed | | | 68,036,056 | 46,665,347 |
| Less: current portion of debt securities issued | | | (68,036,056) | (10,409,721) |
| Non-current portion of debt securities issued | | | - | 36,255,626 |

**Local bonds**

At 6 November 2015 the Company fully repaid its local bonds in the amount of 10,384,000 thousand tenge.

**Eurobonds**

On 3 December 2014, the Company placed on Irish Stock Exchange ("ISE") and Kazakhstan Stock Exchange ("KASE") 200 million unsecured bonds (XS0997708051) with a par value of 1 U.S. dollar for a total amount of 200 million US dollars with annual coupon rate of 4.55%. Interest on the Eurobonds is payable semi-annually in arrears on 3 June and 3 December in each year, commencing on 3 June 2015.

## 18. TRADE AND OTHER PAYABLES

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Trade payables to subsidiaries (Note 29) | 1,169,874 | 14,919 |
| Trade payables to related parties (Note 29) | 384,100 | - |
| Trade payables to third parties | 375,734 | 15,073 |
| | 1,929,708 | 29,992 |

As at 31 December 2015 and 2014 trade and other payables are denominated in tenge.

*(in thousands of tenge)*

## 19. OTHER TAXES PAYABLE

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| VAT payable | 1,249,808 | - |
| Pension and social contributions | 11,603 | 12,048 |
| Social tax payable | 10,428 | 24,715 |
| Personal income tax | 3,966 | 26,399 |
| | 1,275,805 | 63,162 |

## 20. REVENUE

| | 2015 | 2014 |
|---|---|---|
| Revenue from sale of goods | 38,863,930 | - |
| Revenue from rendering of services | 8,046,232 | 71,647 |
| | 46,910,162 | 71,647 |

Revenue represents revenue from goods and services purchased from subsidiaries, associates, joint-ventures and third parties and sold by the Company for state defence order purposes (Note 1).

## 21. COST OF SALES

| | 2015 | 2014 |
|---|---|---|
| Cost of goods sold | 37,719,708 | - |
| Cost of services rendered | 8,021,677 | 71,109 |
| | 45,741,385 | 71,109 |

## 22. ADMINISTRATIVE EXPENSES

| | 2015 | 2014 |
|---|---|---|
| Payroll and related taxes | 814,791 | 1,142,082 |
| Personnel outsourcing | 265,013 | 111,811 |
| Rent expenses | 181,539 | 174,294 |
| Accrual of provision for unused vacation and other remunerations | 166,339 | 33,276 |
| Depreciation and amortisation | 117,298 | 85,397 |
| Accrual of provision for impairment of investments (Notes 7, 8) | 124,460 | 196,280 |
| Business trips and representative expenses | 84,468 | 105,380 |
| Professional services | 24,583 | 37,358 |
| Repair and maintenance | 25,417 | 13,648 |
| Education of personnel | 15,325 | 19,012 |
| Materials | 10,867 | 9,940 |
| Taxes | 8,919 | 12,022 |
| Communication | 7,692 | 6,070 |
| Recovery of allowance for doubtful debts (Notes 10, 12) | (330,181) | (471,101) |
| Provision for employees benefits | - | 3,194 |
| Other | 225,256 | 133,109 |
| | 1,741,786 | 1,611,772 |

*(in thousands of tenge)*

## 23. OTHER INCOME, NET

| | 2015 г. | 2014 г. |
|---|---|---|
| Income from currency operations | 488,633 | 11,291 |
| Fines and penalties | 14,746 | 691,384 |
| Rent income | 5,714 | 8,158 |
| Difference between the carrying value of property, plant and equipment, investment property and inventory and the amount of contribution to subsidiaries (Note 7) | - | 552,501 |
| Other | 223,246 | (134,821) |
| | 732,339 | 1,128,513 |

## 24. FINANCE INCOME

| | 2015 | 2014 |
|---|---|---|
| Gain arising on financial assets designated as at fair value through profit or loss (Note 9) | 4,685,389 | - |
| Interest income on current accounts and deposits (Notes 11 and 13) | 1,792,340 | 1,569,576 |
| Interest income on loans given (Notes 9 and 29) | 1,485,842 | 770,276 |
| Amortisation of fair value adjustment on loans given (Note 29) | 19,067 | 104,817 |
| Other finance income | - | 95,567 |
| | 7,982,638 | 2,540,236 |

## 25. FINANCE COSTS

| | 2015 | 2014 |
|---|---|---|
| Interest on issued bonds | 2,515,915 | 2,158,781 |
| Unwinding of discount on issued bonds | 312,915 | 296,591 |
| Other finance costs | 32,155 | 71,208 |
| | 2,860,985 | 2,526,580 |

During 2015 finance costs from related parties amounted to 248,673 thousand tenge (2014: 185,565 thousand tenge) (Note 29).

## 26. TAXATION

The income tax rate in the Republic of Kazakhstan, where the Company operates, was 20% in 2015 and 2014.

| | 2015 | 2014 |
|---|---|---|
| Deferred income tax benefit | (1,799,218) | (429,989) |
| Income tax benefit | (1,799,218) | (429,989) |

*(in thousands of tenge)*

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2015 and 2014:

| | At 1 January 2015 | Recognised in profit and loss | At 31 December 2015 |
|---|---|---|---|
| Tax losses carried forward | 846,699 | 1,838,689 | 2,685,388 |
| Allowance for doubtful debts | 153,702 | (66,037) | 87,665 |
| Allowance for unused vacation, bonuses and other provisions | 11,708 | 33,906 | 45,614 |
| Taxes | 4,935 | (2,849) | 2,086 |
| Loans given | 3,813 | (3,813) | - |
| Property, plant and equipment and intangible assets | (44,795) | (678) | (45,473) |
| | 976,062 | 1,799,218 | 2,775,280 |

| | At 1 January 2014 | Recognised in profit and loss | At 31 December 2014 |
|---|---|---|---|
| Tax losses carried forward | 420,839 | 425,860 | 846,699 |
| Allowance for doubtful debts | 134,301 | 19,401 | 153,702 |
| Allowance for unused vacation, bonuses and other provisions | 12,471 | (763) | 11,708 |
| Taxes | 7,358 | (2,423) | 4,935 |
| Loans given | 7,212 | (3,399) | 3,813 |
| Property, plant and equipment and intangible assets | (36,108) | (8,687) | (44,795) |
| | 546,073 | 429,989 | 976,062 |

Reconciliation of the income tax expense at the rate of 20% for financial reporting purposes with the amounts used for statutory tax purposes is as follows:

| | 2015 | 2014 |
|---|---|---|
| Loss before income tax | (4,962,649) | (29,880) |
| Theoretical tax at statutory income tax rate of 20% | (992,530) | (5,976) |
| Tax effect from permanent differences | (806,688) | (424,013) |
| Income tax benefit | (1,799,218) | (429,989) |

## 27. CONTINGENT LIABILITIES

***Tax and regulatory environment***

Currently Kazakhstan has a number of laws on various taxes imposed both by national and regional authorities. Law relating to these taxes have not been in force for a significant amount of time, compared to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established, and differing opinions regarding legal interpretation exist. The tax authorities are enabled by law to impose severe fines, penalties and interest charges for late submission of tax returns and/or payment of taxes. These facts create tax risks in the Republic of Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

***Legal issues***

The Company has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which have had, individually or in aggregate, a material adverse impact on the Company. Management believes that the resolution of all such matters will not have a material impact on the Company's financial position or operating results.

*(in thousands of tenge)*

***Environmental matters***

The Company's management believes that it is currently in compliance with all environmental laws and regulations existing in the Republic of Kazakhstan, and therefore no provision for potential losses has been made in these separate financial statements.

***Insurance***

The Company does not insure its production assets, nor does it have third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these separate financial statements as at 31 December 2015.

***Market limitation***

One of the Company's principal operating activities is development, production and sale of military equipment. The Company's activity is strategic for the Republic of Kazakhstan and shall be licensed and approved by the Government of the Republic of Kazakhstan. This fact limits the target market for the products manufactured by the Company.

## 28. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT

The main financial instruments of the Company include loans, cash, short-term deposits and trade and other receivables and payables. The main risks on financial instruments of the Company are interest rate risk, currency risk and credit risk. The Company also monitors market risk and liquidity risk arising on all the financial instruments.

***Capital adequacy management***

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

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

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

The Company is not subject to externally imposed equity requirements.

The Company's capital structure includes net debt (which is comprised of debt securities issued as disclosed in Note 17, after deducting cash and short-term financial investments in Notes 11, 13 and equity of the Company (which is comprised of charter capital, additional paid-in capital and accumulated deficit as disclosed in Notes 15 and 16).

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Borrowed funds | 68,036,056 | 46,665,347 |
| Cash and short-term financial investments | (41,927,551) | (35,095,130) |
| Net debt | 26,108,505 | 11,570,217 |
| Equity | 16,427,317 | 19,731,084 |
| Net debt to equity ratio | 158.93% | 58.64% |

*(in thousands of tenge)*

***Significant accounting policies***

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

***Financial risk management objectives***

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

***Interest rate risk***

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

***Currency risk***

In 2015 the Government and the National Bank of the Republic of Kazakstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. Due to the fact the Company has debt securities issued in foreign currency (Note 17) net foreign exchange loss for 2015 amounted to 14,404,900 thousand tenge (2014: 1,817,778 thousand tenge).

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

The Company 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.

*Exposure to currency risk*

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

| | U.S. dollars | |
|---|---|---|
| | **31 December 2015** | **31 December 2014** |
| **Financial assets:** | | |
| Short-term financial investments | 27,752,319 | 27,761,936 |
| Interest-free financial aid | - | 1,457,297 |
| Trade and other receivable | - | 25,250 |
| **Financial liabilities:** | | |
| Debt securities issued | (68,036,056) | (36,380,080) |
| Net effect | (40,283,737) | (7,135,597) |

*(in thousands of tenge)*

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

| | 2015 | 2014 |
|---|---|---|
| U.S. dollars | 221.73 | 179.19 |

*Sensitivity analysis*

The following table details the Company's sensitivity to 60% (2014: 17.37%) increase and decrease in the value of tenge with respect to U.S. dollars 60% (2014: 17.37%) is the sensitivity rate used when key management assesses and represents reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. The sensitivity analysis includes a) external loans and b) short-term financial investments of the Company, where the denomination of the loan or payables/receivables is in a currency other than the currency of the lender or the borrower.

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

| | U.S. dollars | |
|---|---|---|
| | 31 December 2015 | 31 December 2014 |
| Profit or loss | (24,170,242) | (1,239,453) |

***Credit risk***

Credit risk arising from non-performing contract terms with the Company's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Company to the contractors. The Company's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Company believes that the maximum risk is the sum of its trade and other receivables (Note 10) 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 2015 | 31 December 2014 |
|---|---|---|
| Within the country | 5,793,124 | 2,176,386 |
| Outside the country | - | 25,250 |
| | 5,793,124 | 2,201,636 |

The Company has a policy, providing continuous monitoring to ensure that transactions that are 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.

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

*(in thousands of tenge)*

As at 31 December 2015 and 2014, distribution of trade receivables by ageing was as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Not overdue | 276,049 | 30,852 |
| Overdue by 3-6 months | 3,731,182 | 27,673 |
| Overdue by 6-12 months | 2,134 | 2,143,111 |
| Overdue by more than 12 months | 2,163,803 | 490,225 |
| | 6,173,168 | 2,691,861 |

With respect to credit risk associated with cash and cash equivalents and short-term financial investments, the Company'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 2015, 72% of the Company's cash in the amount of 10,227,216 thousand tenge (31 December 2014 – 0% in the amount of 892 thousand tenge) (Note 13) and 100% of short-term financial investments in the amount of 27,752,319 thousand tenge (31 December 2014 – 99% in the amount of 27,761,936 thousand tenge) (Note 11) are placed at JSC Tsesnabank (a credit rating B+/Stable/B, kzBBB according to Standard &Poor's rating), which represents a significant concentration.

The Company analyses liquidity, credit and currency risks when placing short-term financial investments in second tier banks. The management analysed the terms of agreements on short-term financial investments in JSC Tsesnabank and concluded that the Company will recover these investments as scheduled within one year.

### *Market risk*

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

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company controls the risk related to liquidity management and short-, middle-, and long-term financing according to the Shareholder's requirements. The Company manages liquidity risks by maintaining sufficient reserves, bank loans and available credit lines by means of constant monitoring of budgeted and actual cash flow and comparing of maturity dates of its financial assets and liabilities.

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

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

*(in thousands of tenge)*

| 31 December 2014 | Interest | 1 month–1 year | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| *Non-interest bearing:* | | | | | |
| Trade and other payables | | 29,992 | - | - | 29,992 |
| Other current liabilities | | 4,863 | - | - | 4,863 |
| *Interest bearing:* | | | | | |
| Debt securities issued | 4.55-5% | 12,510,426 | 37,790,557 | - | 50,300,983 |

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

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

| 31 December 2014 | Interest | 1 month–1 year | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| *Non-interest bearing:* | | | | | |
| Loans given | | 1,457,297 | - | - | 1,457,297 |
| Cash | | 7,133,194 | - | - | 7,133,194 |
| Trade and other receivables | | 2,201,636 | - | 490,225 | 2,691,861 |
| *Interest bearing:* | | | | | |
| Loans given | 7.5% | 8,602,339 | 4,168,576 | 1,876,275 | 14,647,190 |
| Short-term financial investments | 5-9% | 29,919,272 | - | - | 29,919,272 |

**Fair value**

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

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

*Cash*

The carrying value of cash equals to their fair value.

*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 assets and liabilities 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 given*

The calculation in respect of loans given 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 financial assets and liabilities approximates their carrying amounts.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at amortised cost and fair value:

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** |
| **Assets** | | | | |
| Loans to subsidiaries | 15,467,348 | 15,467,348 | 11,477,816 | 11,477,816 |
| Loans to a related party | - | - | 1,457,297 | 1,457,297 |
| Short-term financial investments | 27,752,319 | 27,752,319 | 27,961,936 | 27,961,936 |
| Derivative financial instrument | 1,067,225 | 1,067,225 | - | - |
| Assets classified as held for sale | 143,980 | 143,980 | 143,980 | 143,980 |
| | 44,430,872 | 44,430,872 | 41,041,029 | 41,041,029 |
| **Liabilities** | | | | |
| Debt securities issued | 66,464,883 | 68,036,056 | 45,756,464 | 46,665,347 |
| | 66,464,883 | 68,036,056 | 45,756,464 | 46,665,347 |

***Fair value hierarchy***

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

| | As at 31 December 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| ***Financial assets*** | | | | |
| Loans to subsidiaries | - | 11,477,816 | - | 11,477,816 |
| Loans to a related party | - | 1,457,297 | - | 1,457,297 |
| Short-term financial investments | - | 27,961,936 | - | 27,961,936 |
| Assets classified as held for sale | - | - | 143,980 | 143,980 |
| ***Financial liabilities*** | | | | |
| Debt securities issued | 45,756,464 | - | - | 45,756,464 |

*(in thousands of tenge)*

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

## 29. RELATED PARTY TRANSACTIONS

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

Transactions with related parties carried out by the Company for the years ended 31 December 2015 and 2014, were generally conducted in the course of normal activity and on terms equivalent to those that prevail in transactions between independent parties.

Receivables from related parties (Note 10) including loans given (Note 9), receivable on penalties and fines (Note 12), financial asset designated as at fair value through profit or loss (Note 9) less allowance for doubtful debts as at 31 December 2015 and 2014 are presented as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| JSC Semey Engineering | 9,156,281 | 4,208,421 |
| Kazakhstan Aviation Industry LLP | 2,862,910 | 2,250,432 |
| JSC Kirov Machinery Plant | 2,795,913 | 2,739,740 |
| JSC Tynys | 2,682,111 | 2,014,106 |
| JSC 811 Motor-repair Plant KE | 2,466,261 | - |
| JSC Petropavlovsk heavy machinery construction plant | 2,269,590 | 2,411,112 |
| JSC Semipalatinsk machinery construction plant | 1,208,889 | 926,343 |
| JSC S.M. Kirov Plant | 1,113,662 | 1,305,935 |
| JSC Omega Engineering Plant | 138,920 | - |
| JSC Uralsk Plant Zenith | 129,397 | 252,562 |
| Ministries and agencies | 56,341 | - |
| JSC 832 Motor-repair Plant KE | 18,034 | 73,228 |
| JSC ZIKSTO | 15,755 | 18,095 |
| JSC KazEng Electronics | 8,286 | - |
| Kazakhstan ASELSAN engineering LLP | - | 1,697,324 |
| Other | - | 181,533 |
| Less fair value adjustment | - | (19,067) |
| Less allowance for doubtful debts | (2,314,605) | (2,644,785) |
| | 22,607,745 | 15,414,979 |

Payables to related parties including loans, guarantees as security of execution of contracts and other payables as at 31 December 2015 and 2014 are presented as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Kazakhstan Aviation Industry LLP | 393,743 | - |
| JSC Tynys | 354,845 | - |
| JSC S.M. Kirov Plant | 338,834 | - |
| Kazakhstan ASELSAN engineering LLP | 145,276 | |
| JSC Aviarepair plant No.405 | 96,526 | |
| JSC Semipalatinsk machinery construction plant | 78,458 | |
| Eurocopter Kazakhstan engineering LLP | 72,135 | |
| Samruk-Kazyna Corporate University LLP | 55,289 | |
| Other | 18,868 | 16,415 |
| | 1,553,974 | 16,415 |

*(in thousands of tenge)*

Advances to related parties are presented as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| JSC S.M. Kirov Plant | 3,305,720 | - |
| JSC Uralsk Plant Zenith | 1,672,000 | |
| JSC RI Hydropribor | 328,000 | - |
| JSC KazEng Electronics | 174,040 | |
| JSC Semey Engineering | 102,325 | |
| JSC Kirov Machinery Plant | 35,294 | |
| Other | 5,931 | 2,887 |
| | 5,623,310 | 2,887 |

Advances from related parties are presented as follows:

| | 31 December 2015 | 31 December 2014 |
|---|---|---|
| Ministries and agencies | 8,409,878 | - |
| | 8,409,878 | - |

Advances paid and received include advances for the execution of the state defence order in the amounts of 5,622,379 thousand tenge and 8,409,878 thousand tenge, respectively (Note 1).

For the years ended 31 December 2015 and 2014, the Company received revenue from the sale of goods and rendering services to ministries and agencies in the amount of 46,910,162 thousand tenge and 71,647 thousand tenge, respectively (Note 20).

For the years ended 31 December 2015 and 2014, the Company received finance income, excluding interest income, from following related parties:

| | 2015 | 2014 |
|---|---|---|
| Kazakhstan Paramount engineering LLP (Note 9) | 3,618,164 | - |
| JSC 811 Motor-repair Plant KE (Note 9) | 1,067,225 | - |
| Kazakhstan ASELSAN engineering LLP | 19,067 | 121,420 |
| JSC BTA Bank | - | 905 |
| | 4,704,456 | 122,325 |

For the years ended 31 December 2015 and 2014, the Company received interest income from subsidiaries and related parties in the amount of 1,485,842 thousand tenge and 770,276 thousand tenge, respectively (Note 24).

For the years ended 31 December 2015 and 2014, the Company received finance expenses from following related parties:

| | 2015 | 2014 |
|---|---|---|
| JSC Samruk-Energy | 248,673 | 185,565 |
| | 248,673 | 185,565 |

*(in thousands of tenge)*

Expenditures related to services received and goods purchased from related parties for the years ended 31 December 2015 and 2014 are presented as follows:

| | 2015 | 2014 |
|---|---|---|
| Kazakhstan ASELSAN engineering LLP | 8,119,505 | - |
| JSC KAMAZ-Engineering | 5,845,223 | - |
| JSC S.M. Kirov Plant | 3,391,806 | - |
| JSC Tynys | 2,338,782 | - |
| Kazakhstan Aviation Industry LLP | 2,001,782 | - |
| JSC Semipalatinsk Machinery Construction Plant | 866,829 | - |
| JSC Kirov Machinery Plant | 658,044 | - |
| JSC KazEng Electronics | 501,152 | - |
| JSC 811 Motor-repair Plant KE | 393,377 | - |
| JSC Aviarepair plant No.405 | 331,305 | 71,110 |
| Private Institution Corporate university Samruk-Kazyna | 269,991 | 128,649 |
| JSC RI Hydropribor | 221,904 | - |
| JSC NC Kazakhstan Temir Zholy | 182,537 | 174,930 |
| JSC Omega Engineering Plant | 107,143 | - |
| JSC Petropavlovsk Heavy Machinery Building Plant | 103,141 | - |
| SRI Kazakhstan Engineering LLP | 74,788 | - |
| Eurocopter Kazakhstan engineering LLP | 64,406 | - |
| JSC Uralsk Plant Zenith | 62,500 | - |
| Kaz-ST Engineering Bastau LLP | - | 69,202 |
| JSC Airline Euro-Asia Air | - | 5,500 |
| Other | 11,420 | 10,324 |
| | 25,545,635 | 459,715 |

For the years ended 31 December 2015 and 2014, compensation to the key management personnel amounted to 78,173 thousand tenge and 203,365 thousand tenge, respectively.

## 30. SUBSEQUENT EVENTS

As at 21 January 2016 the Board of Directors of the Company approved assets restructuring plan for 2016. According to the plan the Company is going to sell a controlling interest in the following subsidiaries:

JSC Semipalatinsk Machinery Construction Plant, JSC Kirov Machinery Plant, JSC Tynys; 100% share in the following subsidiaries: JSC Omega Instrument Making Plant, JSC 832 Motor-repair Plant KE; shares in the following associates: JSC ZIKSTO and Indra Kazakhstan engineering LLP.

As at 17 February 2016 JSC 811 Motor-repair Plant KE fully repaid its obligation on loan given including amounts related to loan indexation and interest accrued.

## 31. APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS

The separate financial statements of the Company for the year ended 31 December 2015 were approved and authorized for issue by management on 5 March 2016.