JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

Consolidated financial statements
for the year ended 31 December 2014

CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management of JSC Kazakhstan Engineering National Company (hereinafter – "the Company") and its subsidiaries (hereinafter together referred as the "Group") is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2014, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2014 were approved and authorized for issue by management of JSC Kazakhstan Engineering National Company on 5 March 2015.

Signed on behalf of management of the Group

Yerlan Idrissov
Chairman

Aizhan Burkitbayeva
Chief accountant

5 March 2015
Astana, the Republic of Kazakhstan

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Abdrashitova Yekaterina
Qualified auditor
Qualification certificate
No.MF-0000209,
of 1 November 2012,
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 2015
Almaty, the Republic of Kazakhstan

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(in thousands of tenge)

	Notes	31 December 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	15,276,611	13,368,531
Intangible assets	7	514,478	347,467
Investments in joint ventures	9	6,057,061	3,057,799
Investments in associates	10	661,025	1,707,626
Other non-current assets	11	1,243,886	894,099
Deferred tax assets	35	1,078,268	456,721
Investment property		-	35,674
Total non-current assets		24,831,329	19,867,917
CURRENT ASSETS:			
Inventory	12	13,766,488	13,684,008
Trade accounts receivable	13	4,446,347	2,444,368
Income tax prepaid		602,075	495,478
Other taxes recoverable	14	1,070,243	997,080
Restricted cash	15	531,265	371,151
Other current assets	16	4,066,098	5,349,154
Short-term financial investments	17	28,795,181	20,110,038
Cash and cash equivalents	18	10,451,088	10,758,902
		63,728,785	54,210,179
Assets classified as held for sale	19	593,458	8,708
Total current assets		64,322,243	54,218,887
TOTAL ASSETS		89,153,572	74,086,804
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	20	21,476,802	12,101,802
Additional paid-in-capital	21	841,018	841,018
Retained earnings		10,159,253	10,005,198
Equity attributable to Parent of the Company		32,477,073	22,948,018
Non-controlling interests	22	691,530	631,934
Total equity		33,168,603	23,579,952
NON-CURRENT LIABILITIES:			
Debt securities issued	23	36,255,626	40,556,598
Finance lease obligations	24	751,463	881,969
Employee benefits obligations		51,980	38,800
Other non-current liabilities		120,273	134,055
Deferred tax liabilities	35	1,016,345	704,597
Debt component of preferred shares		221,625	212,775
Total non-current liabilities		38,417,312	42,528,794

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014 (CONTINUED)
(in thousands of tenge)

	Notes	31 December 2014	31 December 2013
CURRENT LIABILITIES:			
Current portion of debt securities issued	23	10,409,721	183,026
Current portion of finance lease obligations	24	127,271	124,311
Trade accounts payable	25	2,429,652	3,163,228
Employee benefits obligation		10,286	4,642
Income tax payable		633,606	66,067
Other taxes payable	26	1,567,875	1,069,258
Other current liabilities	27	2,389,246	3,367,526
Total current liabilities		17,567,657	7,978,058
TOTAL EQUITY AND LIABILITIES		89,153,572	74,086,804

Signed on behalf of management of the Group

Yerlan Idrissov
Chairman

«Национальная компания «Казахстан инжиниринг» (Kazakhstan Engineering) Ұлттық компаниясы

Aizhan Burkitbayeva
Chief accountant

5 March 2015
Astana, the Republic of Kazakhstan

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of tenge)

	Notes	2014	2013
OPERATING ACTIVITY:			
Profit before income tax		1,864,914	3,389,234
Adjustments for:			
Amortisation and depreciation		990,630	812,785
Allowance for doubtful accounts		346,821	161,688
Accrual of allowance for obsolete inventories	30	41,735	110,146
Loss from property, plant and equipment and intangible assets disposal		27,804	13,874
Foreign exchange loss/(gain)		1,645,870	(23,433)
Share of profit in joint ventures	9	(267,861)	(671,981)
Share of loss/(profit) in associates	10	336,642	(226,168)
Reversal of provision for warranty repair	29	(50,151)	(437,308)
Unused vacation provision and other remunerations	29, 30	968,787	322,682
Impairment loss		225,355	-
Other provisions		50,224	48,208
Finance income	33	(1,863,522)	(738,388)
Finance costs	34	2,457,483	1,383,734
Cash flows from operating activity before changes in working capital		6,774,731	4,145,073
Changes in working capital:			
Change in inventory		(187,481)	(3,556,449)
Change in trade accounts receivable		(2,169,998)	(705,055)
Change in value added tax and other taxes recoverable		(80,541)	(355,575)
Change in other assets		(538,825)	1,559,228
Change in trade accounts payable		(1,131,161)	(606,972)
Change in taxes payable		696,789	(379,002)
Change in other liabilities		(1,826,349)	(2,056,165)
Cash generated by/(used in) operating activity		1,537,165	(1,954,917)
Interests paid		(2,179,012)	(1,148,056)
Income tax paid		(724,927)	(1,006,799)
Net cash used in operating activity		(1,366,774)	(4,109,772)
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment		(1,651,320)	(2,409,823)
Acquisition of intangible assets		(835)	(90,238)
Advances paid for non-current assets	11	(1,045,582)	(669,595)
Loans given to a related party	39	(85,911)	(524,484)
Repayment of loans given	39	1,744,795	-
Dividends received		385,346	575,497
Proceeds from disposal of property, plant and equipment		24,474	6,290
Contribution to charter capital of joint venture	9	(3,000,000)	-
Interest received		1,536,437	-
Contributions to short-term investments		(5,953,240)	(20,027,800)
Net cash used in investing activity		(8,045,836)	(23,140,153)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)
(in thousands of tenge)

	Notes	2014	2013
FINANCING ACTIVITY:			
Proceeds from debt securities issued	23	-	40,713,099
Contribution to charter capital	20	9,375,000	-
Redemption of debt securities		-	(4,597,294)
Loans received		100	4,919,400
Loans repaid		(100)	(11,615,728)
Finance lease repaid		(136,652)	(728,230)
Dividends paid		(693,637)	(797,055)
Net cash generated by financing activity		8,544,711	27,894,192
CHANGE IN CASH AND CASH EQUIVALENTS, net		(867,899)	644,267
CASH AND CASH EQUIVALENTS, at the beginning of the year	18	10,758,902	10,114,635
Effects of exchange rate changes on the balance of cash held in foreign currencies		560,085	-
CASH AND CASH EQUIVALENTS, at the end of the year	18	10,451,088	10,758,902

Significant non-cash transactions for the years ended 31 December 2014 and 2013 were as follows:

	2014	2013
Finance costs capitalized to the cost of property, plant and equipment	177,308	202,379
Transfer from inventories to property, plant and equipment (Note 6)	150,736	522,069
Transfer from other long term assets to intangible assets (Note 7)	107,228	-
Transfer from inventories to intangible assets (Note 7)	97,240	80,336
Fair value adjustment on loan given to joint venture (Note 39)	87,825	147,566
Accrued depreciation in the cost of finished goods and work-in-progress	33,973	27,577
Transfer from investment property to property, plant and equipment (Note 6)	32,500	-
Fair value adjustment on loan received from the Shareholder	-	97,717
Transfer from property, plant and equipment to assets classified as held for sale (Note 6)	-	5,031
Transfer from inventories to other non-current assets	-	11,210

Signed on behalf of management of the Group

Yerlan Idrissov
Chairman

Aizhan Burkitbayeva
Chief accountant

5 March 2015
Astana, the Republic of Kazakhstan

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

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(in thousands of tenge)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to Parent of the Company	Non-controlling interests	Total
At 1 January 2013		12,101,802	743,301	7,696,411	20,541,514	561,383	21,102,897
Profit and total comprehensive income for the year		-	-	2,994,883	2,994,883	88,137	3,083,020
Fair value adjustment on below market interest bearing loan received from Shareholder, less deferred tax effect of 24,429 thousand tenge		-	97,717	-	97,717	-	97,717
Measurement of debt component of preferred shares		-	-	(7,703)	(7,703)	-	(7,703)
Dividends	20, 22	-	-	(678,393)	(678,393)	(17,586)	(695,979)
At 31 December 2013		12,101,802	841,018	10,005,198	22,948,018	631,934	23,579,952
Profit for the year		-	-	816,380	816,380	101,018	917,398
Other comprehensive loss for the year		-	-	(1,189)	(1,189)	(71)	(1,260)
Total comprehensive income for the year		-	-	815,191	815,191	100,947	916,138
Contribution to charter capital	20	9,375,000	-	-	9,375,000	-	9,375,000
Measurement of debt component of preferred shares		-	-	(8,850)	(8,850)	-	(8,850)
Dividends	20, 22	-	-	(652,286)	(652,286)	(41,351)	(693,637)
At 31 December 2014		21,476,802	841,018	10,159,253	32,477,073	691,530	33,168,603

Signed on behalf of management of the Group

Yerlan Idrissov
Chairman

Aizhan Burkitbayeva
Chief accountant

5 March 2015
Astana, the Republic of Kazakhstan

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

1. GENERAL INFORMATION

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

As at 31 December 2014 and 2013, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (the "Shareholder"). On 15 June 2010, 100% shares were transferred for asset management to Ministry of Defence of the Republic of Kazakhstan. As such, the transfer of shares to trust management did not result in transfer of ownership rights and control to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company and its subsidiaries are:

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

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

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

Number of employees of the Group as at 31 December 2014 was 5,390 people (31 December 2013: 5,638 people).

The consolidated financial statements for the year ended 31 December 2014 were approved by management of the Group on 5 March 2015.

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, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective in the current year

In the current year, the Group has applied for the first time a number of new and revised IFRS that are mandatory from 1 January 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities;*
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities;*
- Amendments to IAS 36 *Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets;*
- Amendments to IAS 39 *Financial Instruments: recognition and measurement - Novation of Derivatives and Continuation of Hedge Accounting;*
- IFRIC 21 *Levies.*

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the financial statements, as the Group is not an investment entity.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. There is no effect of these amendments on the consolidated financial statements of the Group.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable when recoverable amount has been determined on the basis of fair value less costs of disposal. The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

(in thousands of tenge)

As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

IFRIC 21 Levies

IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Standards and interpretations issued but not yet effective:

The Group 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 14 *Regulatory Deferral Accounts*	1 January 2016
IFRS 15 *Revenue from Contracts with Customers*	1 January 2017
Adjustments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, regarding clarifications to admissible depreciation and amortisation methods	1 January 2016
Adjustments to IFRS as part of *IFRS Improvements 2010–2012 and IFRS Improvements 2011–2013*	1 July 2014
Adjustments to IFRS as part of *IFRS Improvements September 2014*	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 and IFRS 15.

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 Group 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.

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

The Group 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

Statement of compliance with IFRS

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

Basis of measurement

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

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

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

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

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

Functional and presentation currency

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

Foreign currency transactions

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

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

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

Going concern basis

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

Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

Non-current assets held for sale

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

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

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

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

Investment property

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

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

Impairment of tangible and intangible assets

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

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

Inventories

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

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

Financial instruments

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

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

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

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

Financial assets

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

Cash and cash equivalents

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

Short-term financial investments

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

Trade accounts receivable

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

Loans and other receivables

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

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

Other financial assets

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments

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

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

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

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

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

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

Construction contracts

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

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

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

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

Lease

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

The Group as a lessor

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

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

The Group as a lessee

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

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

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

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

Borrowing costs

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

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

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

Pension fund liabilities

The Group makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 149,745 tenge per month (2013: not more than 139,950 tenge). Payments to pension funds deducted from employees' salaries and are included in the total cost of salaries and deductions in the consolidated statement of comprehensive income.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Provisions

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

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

Within the privatization plan for 2014-2016, approved by Government of the Republic of Kazakhstan the Group classified its share in JSC ZIKSTO, MBM-Kirovec LLP and Kaz-ST engineering Bastau LLP as assets held for sale for the amount of 592,493 thousand tenge as at 31 December 2014 (Note 19).

Recognition and estimation of debt component of preferred shares

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

Useful lives of property, plant and equipment

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

Warranty obligations

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

Impairment of assets

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

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

Valuation of inventories

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

(in thousands of tenge)

Taxation

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes. Therefore, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

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

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 2014. 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. SEGMENT INFORMATION

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

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

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

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

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

	2014	2013
Specialised products and twofold purposes products	16,366,368	13,559,193
Civil purposes products	11,329,944	18,671,587
Services (engineering)	10,791,774	12,540,652
	38,488,086	44,771,432

The Group carries out its activity in Kazakhstan.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2013: nil).

(in thousands of tenge)

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

	2014	2013
Specialised products and twofold purposes products	16,366,368	13,559,193
Services (engineering)	10,791,774	12,540,652
Civil purposes products:		
- Oil and gas equipment	6,001,994	6,979,003
- Railway equipment	2,599,981	4,613,319
- Other goods	2,727,969	7,079,265
	38,488,086	44,771,432

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

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

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

In 2014, specialised products sales were mainly made to ministries and agencies of 23,025,335 thousand tenge, including some services (2013: 24,808,107 thousand tenge, including some services); oil and gas equipment sales were mainly made to JSC NC KazMunaiGas of 4,629,989 thousand tenge (2013: 6,641,372 thousand tenge), railway equipment sales were made to JSC NC Kazakhstan Temir Zholy of 3,496,222 thousand tenge (2013: 4,224,434 thousand tenge) (Note 39).

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

	2014	2013
Kazakhstan	35,392,286	41,282,905
CIS countries	2,748,200	2,911,327
Other	347,600	577,200
	38,488,086	44,771,432

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in process	Total
Initial or deemed cost:						
At 1 January 2013	195,275	5,021,009	7,403,578	636,278	1,039,258	14,295,398
Additions	3,772	270,143	613,183	191,833	2,454,401	3,533,332
Transfer from inventories	-	68,777	89,785	7,202	356,305	522,069
Internal movement	(5,456)	608,002	206,414	75,523	(884,483)	-
Transfers to assets held for sale	-	-	(5,029)	(2)	-	(5,031)
Disposals	-	(9,193)	(98,705)	(15,218)	(401)	(123,517)
At 31 December 2013	193,591	5,958,738	8,209,226	895,616	2,965,080	18,222,251
Additions	6,343	98,220	330,351	146,164	2,332,915	2,913,993
Transfer to inventories	(1,742)	-	(742)	(2,192)	-	(4,676)
Transfer from inventories	-	-	64,015	19,905	66,816	150,736
Internal movement	-	2,170,756	1,022,669	71,188	(3,264,613)	-
Transfer from investment property	-	32,500	-	-	-	32,500
Disposals	-	(43,054)	(124,731)	(99,441)	(594)	(267,820)
At 31 December 2014	198,192	8,217,160	9,500,788	1,031,240	2,099,604	21,046,984
Accumulated depreciation and impairment:						
At 1 January 2013	-	(1,135,074)	(2,776,885)	(237,281)	-	(4,149,240)
Depreciation charge for the year	-	(116,476)	(534,280)	(144,671)	-	(795,427)
Disposals	-	7,669	73,303	9,975	-	90,947
At 31 December 2013	-	(1,243,881)	(3,237,862)	(371,977)	-	(4,853,720)
Depreciation charge for the year	-	(170,361)	(688,116)	(115,283)	-	(973,760)
Disposals	-	7,207	94,864	63,980	-	166,051
Impairment losses recognised in profit or loss	-	-	(108,944)	-	-	(108,944)
At 31 December 2014	-	(1,407,035)	(3,940,058)	(423,280)	-	(5,770,373)
Carrying value:						
At 31 December 2014	198,192	6,810,125	5,560,730	607,960	2,099,604	15,276,611
At 31 December 2013	193,591	4,714,857	4,971,364	523,639	2,965,080	13,368,531

As at 31 December 2014, construction in process mainly includes the following capital expenditures:

- The development of consumable pattern foundry production and Nonwoven products project costs in subsidiary JSC Tynys of 466,012 thousand tenge (31 December 2013: 348,867 thousand tenge);
- Aeronautic engineering center in Astana project costs in subsidiary Kazakhstan Aviation Industry LLP of 1,259,667 thousand tenge (31 December 2013: 400,698).

(in thousands of tenge)

As at 31 December 2014, property, plant and equipment with carrying value of 1,065,260 thousand tenge were pledged as collateral for certain loans received and bank guarantees by the Group (31 December 2013: 1,708,249 thousand tenge). During 2013, the Group repaid its bank loans, however, property, plant and equipment with carrying value of 627,025 thousand tenge had not been released from collateral.

As at 31 December 2014, carrying value of property, plant and equipment received under finance lease amounted to 1,295,944 thousand tenge (31 December 2013: 1,458,003 thousand tenge). This equipment serves as collateral for the obligations under finance leases.

The cost of fully depreciated property, plant and equipment as at 31 December 2014 and 2013 amounted to 1,072,561 thousand tenge and 751,346 thousand tenge, respectively.

As at 31 December 2014, carrying value of temporary idle property, plant and equipment amounted to 336,494 thousand tenge (31 December 2013: 276,148 thousand tenge).

7. INTANGIBLE ASSETS

	Software	Other	Total
Initial or deemed cost:			
At 1 January 2013	249,352	70,885	320,237
Additions	79,792	10,446	90,238
Transfers from inventories	-	80,336	80,336
Internal movements	(47,753)	47,753	-
At 31 December 2013	281,391	209,420	490,811
Additions	4,360	6,697	11,057
Transfers from other long term assets	92,383	14,845	107,228
Transfer from inventories	-	97,240	97,240
Disposals	(1,842)	-	(1,842)
At 31 December 2014	376,292	328,202	704,494
Accumulated amortization and impairment:			
At 1 January 2013	(73,877)	(34,054)	(107,931)
Accrued amortization for the year	(21,432)	(13,981)	(35,413)
At 31 December 2013	(95,309)	(48,035)	(143,344)
Accrued amortization for the year	(23,877)	(23,792)	(47,669)
Disposals	997	-	997
At 31 December 2014	(118,189)	(71,827)	(190,016)
Carrying value:			
At 31 December 2014	258,103	256,375	514,478
At 31 December 2013	186,082	161,385	347,467

(in thousands of tenge)

8. SUBSIDIARIES

Name	Principal activity	Country	Ownership share 31 December 2014	2013
JSC 811 Motor-repair Plant KE	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%
JSC Omega Instrument Making Plant	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Uralsk Plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
SRI Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction)	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%

(in thousands of tenge)

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

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

Name of subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
JSC Munaymash	48%	48%	100,947	88,137	534,098	475,877

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

	31 December 2014	31 December 2013
Current assets	1,454,320	1,386,670
Non-current assets	1,303,117	1,444,929
Current liabilities	(773,237)	(831,466)
Non-current liabilities	(871,496)	(1,007,876)
Equity attributable to Parent of the Company	578,606	516,380
Non-controlling interests	534,098	475,877

	2014	2013
Revenue	3,193,291	3,303,863
Expenses	(2,982,985)	(3,120,087)
Profit and total comprehensive income for the year	210,306	183,776
Attributable:		
to Parent of the Company	109,359	95,639
to the non-controlling interests	100,947	88,137
Profit and total comprehensive income for the year	210,306	183,776
Dividends paid to non-controlling interests	41,351	17,586
Net cash inflow/(outflow) from:		
- operating activities	306,436	259,409
- investing activities	(23,563)	(15,939)
- financing activities	(264,885)	(206,511)
Net cash inflow	17,988	36,959

(in thousands of tenge)

9. INVESTMENTS IN JOINT VENTURES

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

Name	Principal activity	Country	Ownership share 31 December 2014	Ownership share 31 December 2013
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	Kazakhstan	50%	50%
Thales Kazakhstan engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment for defence services	Kazakhstan	50%	50%
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	50%	50%

	Eurocopter Kazakhstan engineering LLP	Thales Kazakhstan Engineering LLP	Kazakhstan ASELSAN engineering LLP	TOTAL
At 1 January 2013	2,452,009	201,295	101,956	2,755,260
Share of profit/(loss)	828,074	(105,849)	(50,244)	671,981
Fair value adjustment of interest free loan given (Note 39)	-	-	147,566	147,566
Dividends received	(517,008)	-	-	(517,008)
At 31 December 2013	2,763,075	95,446	199,278	3,057,799
Share of profit/(loss)	389,631	(13,644)	(108,126)	267,861
Contributions without change in ownership share	-	-	3,000,000	3,000,000
Fair value adjustment of interest free loan given (Note 39)	-	-	87,825	87,825
Dividends received	(274,622)	-	-	(274,622)
Impairment	-	(81,802)	-	(81,802)
At 31 December 2014	2,878,084	-	3,178,977	6,057,061

In 2014 the Group recognised an impairment loss for its investment in Thales Kazakhstan engineering LLP for the amount of 81,802 thousand tenge due to the fall of operating activities of the Company and absence of business plan, which considers improvements in future operating activities.

(in thousands of tenge)

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

At 31 December 2014	**Eurocopter Kazakhstan engineering LLP**	**Thales Kazakhstan engineering LLP**	**Kazakhstan ASELSAN engineering LLP**
Current assets, including	6,049,955	112,460	3,058,312
Cash and cash equivalents	3,748,832	273	895,227
Non-current assets	1,828,139	228,134	5,930,527
Current liabilities, including	(2,121,926)	(162,203)	(3,042,288)
Current financial liabilities (less trade and other payables and provisions)	-	(21,560)	(956,861)
Non-current liabilities	-	(14,787)	(59,379)
Net assets	5,756,168	163,604	5,887,172
Group's ownership interest	50%	50%	50%
Group's share of net assets	2,878,084	81,802	2,943,586
Fair value adjustment of interest free loan given	-	-	235,391
Impairment	-	(81,802)	-
Carrying amount of the Group's interest in joint ventures	2,878,084	-	3,178,977
For the year ended 31 December 2014			
Revenue	12,551,353	-	3,898,309
Profit/(loss) and total comprehensive income/(loss) for the year	779,262	(27,288)	(216,252)
Share of profit/(loss) in joint ventures	389,631	(13,644)	(108,126)

(in thousands of tenge)

At 31 December 2013	**Eurocopter Kazakhstan engineering LLP**	**Thales Kazakhstan engineering LLP**	**Kazakhstan ASELSAN engineering LLP**
Current assets	5,512,094	489,499	2,260,303
Cash and cash equivalents	*4,756,400*	*768*	*102,321*
Non-current assets	1,830,974	222,715	5,425,908
Current liabilities	(1,816,919)	(514,457)	(7,523,408)
Current financial liabilities (less trade and other payables and provisions)	-	*(31,368)*	*(5,028,940)*
Non-current liabilities	-	(6,865)	(59,379)
Net assets	5,526,149	190,892	103,424
Group's ownership interest	50%	50%	50%
Group's share of net assets	2,763,075	95,446	51,712
Fair value adjustment of interest free loan given	-	-	147,566
Carrying amount of the Group's interest in joint ventures	2,763,075	95,446	199,278
For the year ended 31 December 2013			
Revenue	10,512,200	-	-
Profit/(loss) and total comprehensive income/(loss) for the year	1,656,148	(211,697)	(100,488)
Share of profit/(loss) in joint ventures	828,074	(105,849)	(50,244)

(in thousands of tenge)

10. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are as follows:

Name	Principal activity	Country	Ownership share 31 December 2014	2013
JSC ZIKSTO	Repair of freight rail cars, repair of wheel sets with replacement of elements	Kazakhstan	42.13%	42.13%
MBM-Kirovets LLP	Freight wagons repair, repair of wheel pairs	Kazakhstan	49%	49%
JSC KAMAZ-engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	25%	25%
Indra Kazakhstan engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	Kazakhstan	49%	49%
KAMAZ-Semey LLP	Commercial activity	Kazakhstan	49%	49%
Kaz-ST engineering Bastau LLP	Investment holding activity and provision of defence, engineering services	Kazakhstan	49%	49%
Kazakhstan engineering Distribution LLP	Distribution of goods produced by the Group, investments attraction, participation in state programs and state purchases for equipment supply	Kazakhstan	49%	49%

	JSC ZIKSTO	MBM-Kirovets LLP	JSC KAMAZ-engineering	Other aggregated joint ventures	TOTAL
At 1 January 2013	700,013	355,576	314,668	141,559	1,511,816
Share of profit/(loss)	57,230	(10,600)	167,104	12,434	226,168
Dividends received	-	-	(30,358)	-	(30,358)
At 31 December 2013	757,243	344,976	451,414	153,993	1,707,626
Share of profit/(loss)	(505,199)	21,647	275,150	(128,240)	(336,642)
Dividends received	-	(17,318)	(65,539)	-	(82,857)
Impairment	-	(34,609)	-	-	(34,609)
Transfer to assets classified as held for sale (Note 19)	(252,044)	(314,696)	-	(25,753)	(592,493)
At 31 December 2014	-	-	661,025	-	661,025

As the result of fair value estimation of investments in MBM-Kirovets LLP, made by an independent appraiser, the Group recognised impairment loss in the amount of 34,609 thousand tenge (Note 19).

(in thousands of tenge)

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

At 31 December 2014	JSC ZIKSTO	MBM-Kirovets LLP	JSC KAMAZ-engineering	Other aggregated
Current assets	-	-	5,702,909	384,319
Non-current assets	-	-	460,505	719,571
Current liabilities	-	-	(3,519,315)	(961,557)
Non-current liabilities	-	-	-	(401,680)
	-	-		
Net assets			2,644,099	(259,347)
Group's ownership interest	-	-	25%	22.07%-49%
	-	-		
Group's share of net assets			661,025	-
Accumulated unrecognised share in losses	-	-	-	(174,342)
Carrying amount of the Group's interest in associate	-	-	661,025	-

As at 31 December 2014, the Group classified investments in JSC ZIKSTO, MBM-Kirovets LLP and Kaz-ST engineering Bastau LLP as assets held for sale (Note 19).

For the year ended 31 December 2014	JSC ZIKSTO	MBM-Kirovets LLP	JSC KAMAZ-engineering	Other aggregated
Revenue	1,556,440	1.590,843	14,254,642	(3,195,169)
Profit/(loss) and total comprehensive income/(loss) for the year	(1,202,855)	44,178	1,100,600	(430,952)
Share of profit/(loss) in associates	(505,199)	21,647	275,150	(128,240)
Unrecognised share in losses for the year	-	-	-	(124,633)

(in thousands of tenge)

At 31 December 2013	JSC ZIKSTO	MBM-Kirovets LLP	JSC KAMAZ-engineering	Other aggregated
Current assets	2,882,576	87,559	4,121,600	366,696
Non-current assets	677,595	642,491	479,124	268,391
Current liabilities	(1,734,686)	(19,698)	(2,795,069)	(472,520)
Non-current liabilities	(28,090)	(6,320)	-	(103)
Net assets	1,797,395	704,032	1,805,655	162,464
Group's ownership interest	42.13%	49%	25%	22.07%-49%
Group's share of net assets	757,243	344,976	451,414	153,993
Accumulated unrecognised share in losses	-	-	-	(49,709)
Carrying amount of the Group's interest in associate	757,243	344,976	451,414	153,993
For the year ended 31 December 2013				
Revenue	4,232,204	131,303	14,708,526	653,379
Profit/(loss) and total comprehensive income/(loss) for the year	135,841	(21,633)	668,415	(46,847)
Share of profit/(loss) in associates	57,230	(10,600)	167,104	12,434
Unrecognised share in losses for the year	-	-	-	(35,389)

11. OTHER NON-CURRENT ASSETS

	31 December 2014	31 December 2013
Advances paid for property, plant and equipment	1,045,582	669,595
Inventories for capital repair and construction of non-current assets	176,712	74,713
Loans given to employees	11,355	11,373
Other non-current assets	10,237	138,418
	1,243,886	894,099

(in thousands of tenge)

12. INVENTORY

	31 December 2014	31 December 2013
Raw materials	6,637,261	7,055,835
Work-in-progress	5,190,215	4,643,747
Finished goods	2,196,720	1,971,604
Goods for sale	55,705	382,160
	14,079,901	14,053,346
Less: allowance for obsolete inventories	(313,413)	(369,338)
	13,766,488	13,684,008

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

	2014	2013
Allowance for obsolete inventories at the beginning of the year	(369,338)	(308,201)
Accrued during the year	(41,735)	(110,146)
Written-off against previously created allowance	97,660	49,009
Allowance for obsolete inventories at the end of the year	(313,413)	(369,338)

13. TRADE ACCOUNTS RECEIVABLE

	31 December 2014	31 December 2013
Trade receivables from related parties (Note 39)	2,737,925	1,815,418
Trade receivables from third parties	1,965,467	739,638
	4,703,392	2,555,056
Less: allowance for doubtful debts	(257,045)	(110,688)
	4,446,347	2,444,368

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

	2014	2013
Allowance for doubtful debts at the beginning of the year	(110,688)	(45,542)
Accrued during the year	(156,004)	(90,142)
Written-off against previously created allowance	9,647	24,996
Allowance for doubtful debts at the end of the year	(257,045)	(110,688)

(in thousands of tenge)

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

	31 December 2014	31 December 2013
Tenge	4,023,576	2,394,324
U.S. dollars	349,645	-
Russian roubles	73,126	50,044
	4,446,347	2,444,368

14. OTHER TAXES RECOVERABLE

	31 December 2014	31 December 2013
Value added tax	1,022,450	941,909
Other taxes recoverable	47,793	55,171
	1,070,243	997,080

15. RESTRICTED CASH

	31 December 2014	31 December 2013
Cash on special bank accounts	531,265	371,151
	531,265	371,151

As at 31 December 2014 and 2013, restricted cash represents cash on special bank accounts as a guarantee for execution of contracts.

As at 31 December, restricted cash is denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	433,344	288,662
U.S. dollars	97,921	82,489
	531,265	371,151

As at 31 December 2013, restricted cash of 82,730 thousand tenge was placed on bank accounts with related parties (Note 39).

(in thousands of tenge)

16. OTHER CURRENT ASSETS

	31 December 2014	31 December 2013
Short-term advances given to third parties	2,307,800	2,222,702
Loans to related party (Note 39)	1,476,364	2,732,911
Other receivable from third parties	414,871	261,640
Short-term advances given to related parties (Note 39)	51,565	76,140
Prepaid expenses	46,956	97,698
Receivable from employees	23,419	27,408
Dividends receivable (Note 39)	18,095	45,962
	4,339,070	5,464,461
Less: fair value adjustment (Note 39)	(19,067)	(39,919)
Less: allowance for doubtful debts	(253,905)	(75,388)
	4,066,098	5,349,154

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

	2014	2013
Allowance for doubtful debts at the beginning of the year	(75,388)	(52,203)
Accrued during the year	(190,817)	(71,546)
Written-off against previously created allowance	12,300	48,361
Allowance for doubtful debts at the end of the year	(253,905)	(75,388)

As at 31 December, other current assets net of allowance for doubtful debts are denominated in the following currencies:

	31 December 2014	31 December 2013
U.S. dollars	1,457,297	2,160,081
Tenge	439,985	907,840
Russian roubles	35,467	-
	1,932,749	3,067,921

17. SHORT-TERM FINANCIAL INVESTMENTS

As at 31 December 2014 and 2013, short-term financial investments represented bank deposits at JSC Tsesna Bank, JSC ATF bank and JSC Bank Center Credit. Deposits mature in 12 months and bear an annual average interest rate of 5-9% (2013: 5%).

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

	31 December 2014	31 December 2013
U.S. dollars	28,443,925	20,110,038
Tenge	351,256	-
	28,795,181	20,110,038

(in thousands of tenge)

18. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash on bank accounts in tenge	10,057,730	7,231,841
Cash on bank accounts in foreign currencies	354,970	3,133,499
Petty cash in tenge	37,456	26,394
Cash on special bank accounts in tenge	858	817
Cash in transit in tenge	74	288
Short-term deposits	-	366,063
	10,451,088	10,758,902

As at 31 December 2013, the Group placed cash on current accounts at JSC Tsesna Bank and JSC BTA Bank with an initial maturity from 1 to 3 months and annual interest rates from 4% to 6.7%.

Cash and cash equivalents are denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	10,096,118	7,625,403
Russian roubles	316,368	47,083
U.S. dollars	34,301	3,085,714
Euro	4,301	702
	10,451,088	10,758,902

19. ASSETS CLASSIFIED AS HELD FOR SALE

In July-August 2014, within privatization plant for 2014-2016 approved by Government of the Republic of Kazakhstan, the Shareholder approved a list of the Group's subsidiaries, associates and joint ventures subject to disposal. Investments, whose sale is expected in 2015, were classified as assets held for sale in consolidated statement of financial position for the amount of 592,493 thousand tenge (Note 10). It is represented by investment in JSC ZIKSTO (42.13%), MBM-Kirovets LLP (49%) and Kaz-ST engineering Bastau LLP (49%). The Group plans to sell its share in above companies at auction, to be held in March-April 2015. Management of the Group 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, except for investments in MBM-Kirovets LLP (Note 10).

As at 31 December 2014, property, plant and equipment classified as assets held for sale amounted to 965 thousand tenge (31 December 2013: 8,708 thousand tenge).

20. CHARTER CAPITAL

As at 31 December 2014, authorized, issued and fully paid charter capital of the Company consists of common shares of 21,476,802 shares with par value of 1000 tenge, each (31 December 2013: 12,101,802 common shares at par value of 1000 tenge, each).

During 2014 the Company issued additional common shares of 9,375,000 shares with par value of 1000 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 2014 and 2013, the Company declared and paid dividends to the Shareholder in the amount of 652,286 thousand tenge and 678,393 thousand tenge, respectively.

(in thousands of tenge)

As at 31 December 2014 and 2013, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

21. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2014 and 2013, additional paid-in-capital amounted to 841,018 thousand tenge. Additional paid-in-capital includes the following:

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

22. NON-CONTROLLING INTERESTS

	2014	2013
At 1 January	631,934	561,383
Net profit and total comprehensive income for the year, attributable to non-controlling interests	100,947	88,137
Dividends	(41,351)	(17,586)
At 31 December	691,530	631,934

During 2014, the subsidiary, JSC Munaymash, declared dividends for 2013 of 41,351 thousand tenge (2013: 17,586 thousand tenge for 2012) payable to non-controlling interests.

23. DEBT SECURITIES ISSUED

	Maturity	Coupon rate	31 December 2014	31 December 2013
Local bonds issued at a price of:				
95.2341% - Tranche 1	6 November 2015	5%	4,534,000	4,534,000
96.4613% - Tranche 2	6 November 2015	5%	1,200,000	1,200,000
96.9239% - Tranche 3	6 November 2015	5%	1,000,000	1,000,000
97.3266% - Tranche 4	6 November 2015	5%	1,885,000	1,885,000
97.8540% - Tranche 5	6 November 2015	5%	1,765,000	1,765,000
Eurobonds issued at a price of 100%	3 December 2016	4.55%	36,470,000	30,812,000
Including/(less):				
Accrued coupon			202,334	183,026
Transaction costs			(214,374)	(315,935)
Discount on debt securities issued			(176,613)	(323,467)
Total bonds placed			46,665,347	40,739,624
Less: current portion of debt securities issued			(10,409,721)	(183,026)
Non-current portion of debt securities issued			36,255,626	40,556,598

(in thousands of tenge)

Local bonds

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

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

During February-April 2013, the Company placed 103,840 thousand bonds with par value of 100 tenge totalling 10,384,000 thousand tenge.

Eurobonds

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

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

24. FINANCE LEASE OBLIGATIONS

	Minimal lease payments		**Present value of minimum lease payments**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
Less than one year	169,106	176,049	127,271	124,311
From one to five years	748,672	772,318	642,754	625,047
More than five years	110,890	260,944	108,709	256,922
	1,028,668	1,209,311	878,734	1,006,280
Less future finance costs	(149,934)	(203,031)	-	-
	878,734	1,006,280	878,734	1,006,280
Recognised in:				
- current liabilities			127,271	124,311
- non-current liabilities			751,463	881,969
			878,734	1,006,280

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

In 2014 and 2013, interest rate was 5%.

Finance lease obligations are denominated in tenge.

(in thousands of tenge)

25. TRADE ACCOUNTS PAYABLE

	31 December 2014	31 December 2013
Accounts payable to suppliers and contractors	1,291,528	1,695,563
Accounts payable to related parties (Note 39)	1,138,124	1,467,665
	2,429,652	3,163,228

Trade accounts payable are denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	1,309,428	2,204,251
Russian roubles	631,864	734,952
U.S. dollars	408,148	219,248
Euro	80,212	4,777
	2,429,652	3,163,228

26. OTHER TAXES PAYABLE

	31 December 2014	31 December 2013
VAT payable	1,082,527	604,598
Pension and social contributions	194,094	173,927
Personal income tax	172,073	161,554
Social tax	91,296	116,071
Other taxes	27,885	13,108
	1,567,875	1,069,258

27. OTHER CURRENT LIABILITIES

	31 December 2014	31 December 2013
Advances received from related parties (Note 39)	487,740	1,496,563
Advances received from third parties	858,147	822,639
Provisions	375,245	468,641
Salary payable	309,834	240,155
Dividends payable to third parties	203,427	177,191
Other deferred income	327	2,968
Other payables	154,526	159,369
	2,389,246	3,367,526

(in thousands of tenge)

Movement in provisions is presented as follows:

	Warranty repair	Unused vacation and other remunerations	Other accrued liabilities	Total
At 1 January 2013	543,440	788,256	146,577	1,478,273
Recognised in:				
non-current liabilities	10,891	-	25,285	36,176
current liabilities	532,549	788,256	121,292	1,442,097
	543,440	788,256	146,577	1,478,273
(Recovered)/accrued for the year	(437,308)	313,550	4,766	(118,992)
Repaid/used	(31,551)	(726,460)	(98,709)	(856,720)
At 31 December 2013	74,581	375,346	52,634	502,561
Recognised in:				
non-current liabilities	12,349	21,571	-	33,920
current liabilities	62,232	353,775	52,634	468,641
(Recovered)/accrued for the year	(50,151)	968,787	22,972	941,608
Repaid/used	(328)	(977,414)	(53,082)	(1,030,824)
At 31 December 2014	24,102	366,719	22,524	413,345
Recognised in:				
non-current liabilities	13,004	25,096	-	38,100
current liabilities	11,098	341,623	22,524	375,245
	24,102	366,719	22,524	413,345

Other current liabilities are mainly denominated in tenge.

28. REVENUE

	2014	2013
Revenue from sale of goods	27,574,303	32,207,362
Revenue from rendering of services	10,913,783	12,540,652
Other	-	23,418
	38,488,086	44,771,432

In 2014 revenue from operations with related parties amounted to 32,360,097 thousand tenge (2013: 35,794,978 thousand tenge) (Note 39).

(in thousands of tenge)

29. COST OF SALES

	2014	2013
Raw materials	18,767,492	25,180,548
Payroll and related taxes	5,815,762	6,513,963
Subcontractors' services	2,121,906	3,866,115
Depreciation and amortisation	762,523	638,675
Provision for unused vacation and other remunerations (Notes 27, 30)	745,741	246,864
Utilities	508,355	607,132
Repair and maintenance	352,615	419,163
Provision for employee benefits obligations	-	37,826
Reversal of provision for warranty repair (Note 27)	(50,151)	(437,308)
Other	444,536	298,586
	29,468,779	37,371,564
Work-in-progress at the beginning of the year	4,643,747	3,499,630
Work-in-progress at the end of the year (Note 12)	5,190,215	4,643,747
Change in work-in-progress	(546,468)	(1,144,117)
Finished goods at the beginning of the year	1,971,604	2,101,415
Finished goods at the end of the year (Note 12)	2,196,720	1,971,604
Change in finished goods	(225,116)	129,811
	28,697,195	36,357,258

30. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Payroll and related taxes	2,216,641	2,014,292
Provision for unused vacation and other remunerations (Notes 27, 29)	223,046	66,686
Depreciation and amortisation	196,489	174,150
Rent expenses	193,347	180,394
Business trips and representative expenses	182,426	210,977
Allowance for doubtful debts	126,821	161,688
Taxes	109,984	247,798
Utilities	85,986	63,755
Professional services	67,969	128,453
Materials	64,336	47,077
Bank commissions	63,533	77,615
Repair and maintenance	51,209	52,091
Allowance for obsolete inventories (Note 12)	41,735	110,146
Communication	33,048	61,279
Education of personnel	26,531	27,952
Provision for employees benefits	24,210	14,748
Accrual of other provisions (Note 27)	22,972	4,766
Security	16,736	21,666
Transportation	14,897	14,528
Fines and penalties	9,678	12,646
Charity and sponsorship	6,688	6,622
Other	627,595	517,602
	4,405,877	4,216,931

(in thousands of tenge)

31. SELLING EXPENSES

	2014	2013
Payroll and related taxes	306,797	278,900
Transportation	218,838	297,736
Business trips	120,978	120,127
Advertising and marketing	108,802	12,687
VAT non-recoverable	81,478	134,632
Depreciation and amortization	25,229	13,532
Utilities	5,011	6,974
Other	180,831	279,479
	1,047,964	1,144,067

32. FOREIGN EXCHANGE LOSS

On 11 February 2014, the National Bank of the Kazakhstan took the decision to reduce its intervention in setting the KZT exchange rate to U.S. dollar and other major currencies. As a result, the official exchange rate of KZT to U.S. dollar fell to KZT 184.5 as at 13 February 2014, i.e. by 19%. Foreign exchange loss for 2014 mainly arose from debt securities issued, since the major part of it is denominated in foreign currencies (Note 23).

33. FINANCE INCOME

	2014	2013
Interest on short-term deposits and current accounts	1,662,285	525,305
Amortisation of fair value adjustment on loans given	104,817	139,457
Interest income on loans given	16,603	8,427
Other finance income	79,817	65,199
	1,863,522	738,388

In 2014 finance income on short-term deposits and current accounts from related parties equalled to 3,091 thousand tenge (2013: 7,637 thousand tenge) (Note 39).

34. FINANCE COSTS

	2014	2013
Coupon on bonds issued	1,981,573	708,382
Amortisation of discount on bonds issued	296,591	205,015
Interest on finance lease	47,160	71,860
Dividends on preferred shares	39,174	21,186
Interest on loans	-	320,901
Amortisation of fair value adjustment on loans received from the Shareholder	-	28,485
Other finance costs	92,985	27,905
	2,457,483	1,383,734

During 2014 finance costs from related parties amounted to 185,565 thousand tenge (2013: 310,293 thousand tenge) (Note 39).

(in thousands of tenge)

35. TAXATION

	2014	2013
Current income tax expense	1,220,487	593,725
Adjustment of current income tax for prior years	36,828	(85,000)
Deferred tax benefit	(309,799)	(202,511)
Income tax expense	947,516	306,214

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

	2014	2013
Profit before income tax from continuing operations	1,864,914	3,389,234
Theoretical income tax at official tax rate of 20%	372,983	677,847
Tax effect of permanent differences	267,114	(107,003)
Unrecognized deferred tax asset	150,753	-
Taxable gain on revaluation	106,082	-
Adjustment of current income tax for prior years	36,828	(85,000)
Share of loss/(profit) in associates and joint ventures not taxable	13,756	(179,630)
	947,516	306,214

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2014 and 2013:

	At 1 January 2014	Recognised in profit and loss	At 31 December 2014
Tax losses carried forward	551,564	3,999	555,563
Other liabilities	33,886	55,287	89,173
Provisions	108,377	(40,874)	67,503
Trade accounts receivable	(8,168)	57,978	49,810
Taxes payable	21,264	(1,012)	20,252
Loans given	7,212	(3,103)	4,109
Inventory	73,868	(73,868)	-
Property, plant and equipment	(1,035,879)	311,392	(724,487)
	(247,876)	309,799	61,923

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

36. CONTINGENT LIABILITIES

Taxation and regulatory environment

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

Legal matters

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

Environmental matters

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

Insurance

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2014.

Market limitation

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

Capital commitments

As at 31 December 2014 and 2013, the Group has number of commitments for acquisition of property, plant and equipment of 7,591,163 thousand tenge and 334,533 thousand tenge, respectively.

37. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

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

Capital adequacy management

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

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

(in thousands of tenge)

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

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

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

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

	31 December 2014	31 December 2013
Borrowed funds	47,765,706	41,958,679
Cash and cash equivalents, short-term investments and restricted cash	(39,777,534)	(31,240,091)
Net debt	7,988,172	10,718,588
Equity	33,168,606	23,579,952
Net debt to equity ratio	24.08%	45.46%

Significant accounting policies

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

Financial risk management objectives

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

Interest rate risk

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

Currency risk

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

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

(in thousands of tenge)

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

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

Exposure to currency risk

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

	Denominated in U.S. dollars		Denominated in Russian roubles		Denominated in EURO	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Financial assets:						
Cash and cash equivalents	34,301	3,085,714	316,368	47,083	4,301	702
Restricted cash	97,921	82,489	-	-	-	-
Short-term investments	28,443,925	20,110,038	-	-	-	-
Interest-free loan to a related party	1,457,297	2,160,081	-	-	-	-
Trade and other receivables	349,645	-	108,593	50,044	-	-
Financial liabilities:						
Debt securities issued	(36,380,080)	(30,648,766)	-	-	-	-
Trade accounts payable	(408,148)	(219,248)	(631,864)	(734,952)	(80,212)	-
	(6,405,139)	(5,429,692)	(206,903)	(637,825)	(75,911)	702

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

	2014	2013
U.S. dollars	179.19	152.14
EURO	238.10	202.09
Russian roubles	4.76	4.78

Sensitivity analysis

The following table details the Group's sensitivity to 17.37% increase and decrease in the value of KZT with respect to USD, 33.54% with respect to Russian roubles and 18.36% with respect to Euro. 17.37% , 33.54% and 18.36% is the sensitivity rate used when key management assesses and represents reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. The sensitivity analysis includes a) external loans and payables and b) receivables of the Company, where the denomination of the loan or payables/receivables is in a currency other than the currency of the lender or the borrower.

The following table shows changes in financial assets and liabilities when KZT weakens by 17.37%, 33.54% and 18.36% compared to the relevant currency.

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

	U.S. dollars		Russian roubles		EURO	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Profit or loss	(1,110,877)	(1,085,938)	(13,941)	(127,565)	(69,512)	-

(in thousands of tenge)

Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is its trade receivables (Note 13), 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 2014	31 December 2013
Within the country	4,023,576	2,394,324
Outside the country	422,771	50,044
	4,446,347	2,444,368

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

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

As at 31 December 2014 and 2013, distribution of trade receivables by ageing was as follows:

	31 December 2014	31 December 2013
Not overdue	3,879,479	2,036,888
Overdue by 3-6 months	6,497	99,998
Overdue by 6-12 months	560,371	307,482
Overdue by more than 12 months	257,045	110,688
	4,703,392	2,555,056

Market risk

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

Liquidity risk

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

(in thousands of tenge)

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

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

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

	Interest	**1-6 months**	**6 months – 1 year**	**1-5 years**	**More than 5 years**	**Total**
2014						
Non-interest bearing:						
Trade accounts payable		2,429,652	-	-	-	2,429,652
Other liabilities		309,834	357,953	65,316	221,625	954,728
Interest bearing:						
Debt securities issued	4.55%-5%	202,334	12,308,092	37,790,557	-	50,300,983
Finance lease	5%	85,353	83,753	748,672	110,890	1,028,668

	Interest	**1-6 months**	**6 months – 1 year**	**1-5 years**	**More than 5 years**	**Total**
2013						
Non-interest bearing:						
Trade accounts payable	-	3,163,228	-	-	-	3,163,228
Other liabilities	-	240,155	336,560	95,837	212,775	885,327
Interest bearing:						
Loans	8%-16%	168,743	5,650,482	1,549,518	-	7,368,743
Debt securities issued	4.55%-5%	1,143,599	960,573	43,696,664	-	45,800,836
Finance lease	5%	61,997	114,052	772,318	260,944	1,209,311

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

	Interest rate	**1 month – 1 year**	**1-5 years**	**More than 5 years**	**Unknown period**	**Total**
2014						
Interest bearing:						
Short-term financial investments	5-9%	30,810,844	-	-	-	30,810,844
Non-interest bearing:						
Cash and cash equivalents, less petty cash		10,451,088	-	-	-	10,451,088
Restricted cash		531,265	-	-	-	531,265
Trade accounts receivable		4,446,347	-	-	257,045	4,703,392
Other assets		1,913,682	21,592	-	-	1,935,274

(in thousands of tenge)

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

38. FAIR VALUE

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

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

Cash and cash equivalents

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

Short-term financial investments

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

Trade and other accounts receivable and payable

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

Loans

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

Investment property

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

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

(in thousands of tenge)

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

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

	31 December 2014		31 December 2013	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Loans to a related party	1,457,364	1,457,364	2,692,992	2,692,992
Short-term financial investments	28,795,181	28,795,181	20,110,038	20,110,038
Investment property	-	-	399,590	35,674
Assets classified as held for sale	593,458	593,458	8,708	8,708
	30,846,003	30,846,003	23,211,328	22,847,412
Liabilities				
Debt securities issued	45,756,464	46,665,347	41,518,158	40,739,624
Finance lease obligations	878,734	878,734	1,006,280	1,006,280
	46,635,198	47,544,081	42,524,438	41,745,904

Fair value hierarchy as at 31 December 2014

	Fair value hierarchy as at 31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans to a related party	-	1,457,364	-	1,457,364
Short-term financial investments	-	28,795,181	-	28,795,181
Non-financial assets				
Non-current assets classified as held for sale	-	-	593,458	593,458
Financial liabilities				
Debt securities issued	45,756,464	-	-	45,756,464
Finance lease obligations	-	878,734	-	878,734

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

(in thousands of tenge)

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

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

39. RELATED PARTY TRANSACTIONS

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

Trade accounts receivable (Note 13)

	31 December 2014	31 December 2013
JSC NC Kazakhstan Temir Zholy	1,127,706	690,462
Ministries and agencies	688,569	279,018
JSC NC KazMunaiGas	570,370	780,122
JSC Mangystaumunaigaz	227,498	-
Other	123,782	65,816
	2,737,925	1,815,418

Dividends receivable (Note 16)

	31 December 2014	31 December 2013
JSC ZIKSTO	18,095	45,962

Trade accounts payable (Note 25)

	31 December 2014	31 December 2013
JSC Aviarepair plant No.405	499,623	635,375
Elkam LLP	395,214	618,989
JSC NC Kazakhstan Temir Zholy	145,155	-
JSC KAMAZ-Engineering	78,148	171,121
JSC Samruk Energy	15,334	11,540
JSC NC KazMunaiGas	-	2,180
Other	4,650	28,460
	1,138,124	1,467,665

Advances given (Note 16)

	31 December 2014	31 December 2013
JSC NC KazMunaiGas	14,426	16,162
JSC Samruk Energy	3,237	4,598
JSC Kazpost	4,059	3,633
Kaz-ST Engineering Bastau LLP	-	44,800
Other	29,843	6,947
	51,565	76,140

(in thousands of tenge)

Loans given (Note 16)

	31 December 2014	31 December 2013
Kazakhstan ASELSAN engineering LLP	1,476,364	2,724,484
Accrued interest	-	8,427
Less fair value adjustment	(19,067)	(39,919)
	1,457,297	2,692,992

In 2012, the Company provided interest-free loan to Kazakhstan ASELSAN engineering LLP of 2,200,000 thousand tenge with a maturity until 31 March 2013. The Company measured this loan at amortised cost using market interest rate of 7% at the date of loans provision.

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

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

During 2014, the maturity of the loan was extended until 31 March 2015. The Company remeasured the loan at amortised cost and recognised a fair value adjustment of 87,825 thousand tenge in the cost of investments in joint venture (Note 9). The loan amount of 1,134,400 thousand tenge was repaid during 2014.

Also, during 2014 the Company accrued fines in the amount of 220,000 thousand tenge for the delay of interest free loan repayment as per the contract terms. At the same time, the Company accrued allowance for doubtful debts for the full amount, since management of the Company expects that this amount will not be recovered (Note 16).

During 2013, the Company provided a loan of 524,484 thousand tenge to Kazakhstan ASELSAN engineering LLP at annual interest rate of 7.5% with a maturity until 31 July 2014. During 2014, under the same loan agreement the Company provide additional amount of 85,911 thousand tenge. As at 31 December 2014, the loan was fully repaid.

For the year ended 31 December 2014, finance income amounted to 121,420 thousand tenge (2013: 147,884 thousand tenge), including interest income of 16,603 thousand tenge (2013: 8,427 thousand tenge) and amortisation of fair value adjustment of 104,817 thousand tenge (2013: 139,457 thousand tenge) (Note 33).

Cash and cash equivalents and restricted cash (Notes 15, 18)

	31 December 2014	31 December 2013
JSC BTA Bank (cash and cash equivalents)	-	412,011
JSC Temir Bank (cash and cash equivalents)	-	100,372
JSC Alliance Bank (cash and cash equivalents)	-	6,229
JSC BTA Bank (restricted cash)	-	82,730
	-	601,342

(in thousands of tenge)

Advanced received (Note 27)

	31 December 2014	31 December 2013
Ministries and agencies	469,405	1,276,298
JSC NC Kazakhstan Temir Zholy	10,719	16,009
JSC NC KazMunaiGas	7,616	204,256
	487,740	1,496,563

Dividends to the Shareholder (Note 20)

	31 December 2014	31 December 2013
Accrued for the period	652,286	678,393

Revenue (Note 28)

	2014	2013
Ministries and agencies	23,025,335	24,808,107
JSC NC KazMunaiGas	4,629,989	6,641,372
JSC NC Kazakhstan Temir Zholy	3,496,222	4,224,434
JSC Mangystaumunaigaz	966,574	-
JSC KAMAZ-Engineering	33,881	54,254
JSC Lokomotiv kurastyru zauty	30,555	-
CJSC Elkam-Neftemash	11,447	50,757
JSC NAC Kazatomprom	534	5,007
Other	165,560	11,047
	32,360,097	35,794,978

Expenditures on services rendered and goods acquired

	2014	2013
Elkam LLP	1,932,838	1,940,593
JSC NC Kazakhstan Temir Zholy	479,379	325,993
JSC NC KazMunaiGas	127,273	113,329
Kaz-ST Engineering Bastau LLP	80,939	57,986
JSC Samruk Energy	80,184	95,783
JSC Aviarepair plant No.405	71,110	2,558,234
JSC Kazakhtelecom	19,313	24,242
Samruk Kazyna-Contract LLP	14,476	26,584
Elkam Munaymash LLP	11,733	17,265
JSC BTA Bank	10,649	36,467
JSC KAMAZ-Engineering	-	406,986
Other	210,262	10,310
	3,038,156	5,613,772

Finance income (Note 33)

	2014	2013
Kazakhstan ASELSAN engineering LLP	121,420	147,884
JSC BTA Bank	3,091	7,637
	124,511	155,521

(in thousands of tenge)

Finance costs (Note 34)

	2014	2013
JSC Samruk-Energy	185,565	10,515
JSC BTA Bank	-	26,272
JSC SWF Samruk-Kazyna (interests and amortization of discount)	-	273,506
	185,565	310,293

Remuneration of key management personnel

For the years ended 31 December 2014 and 2013, compensation to key management personnel amounted to 361,916 thousand tenge and 337,203 thousand tenge, respectively.

40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved and authorized for issue by management on 5 March 2015.