JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

Separate financial statements
for the year ended 31 December 2013

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

CONTENT

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management of JSC Kazakhstan Engineering National Company (the "Company") is responsible for the preparation of the separate financial statements that present fairly the financial position of the Company as at 31 December 2013, the results of its operations, cash flows, changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The separate financial statements for the year ended 31 December 2013 were approved and authorised for issue by management of the Company on 5 March 2014.

On behalf of the management of the Company

Bolat Smagulov	**Aliya Zhetenova**	**Aizhan Burkitbayeva**
Chairman	**Managing Director**	**Chief Accountant**

5 March 2014
Astana, the Republic of Kazakhstan

Deloitte.

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Almaty, 050059,
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying separate financial statements of Joint Stock Company Kazakhstan Engineering National Company (the "Company"), which comprise the separate statement of financial position as at 31 December 2013, the separate statements of 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 Separate Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

As discussed in Note 7 to the accompanying separate financial statements, in 2012 the Company made the decision to reflect the investments in subsidiaries at their revalued amount at the date of their contribution to share capital of the Company (5 March 2004). This adjustment of 3,330,650 thousand tenge was recognised in the separate statement of changes in equity for 2012. We were not able to obtain sufficient appropriate audit evidence as to the adjusted value of the Company's investments in subsidiaries as at the date of the contribution. Also, according to the accounting policy of the Company described in Note 2, the Company accounts for the investments in subsidiaries at cost net of impairment losses. However, as indicated in Note 7, the Company did not perform a test for impairment of investments in the presence of indicators, which provide potential reduction in cost, which does not meet the requirements of IAS 36 Impairment of Assets. Accordingly, we were unable to determine whether any kind of adjustments of these amounts is necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

We draw attention to Note 2 to the separate financial statements, which describes that the separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. The Company also prepares consolidated financial statements of the Company and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were approved by management on 5 March 2014. Our opinion is not qualified in respect of this matter.

Dulat Taituleyev
Engagement Partner
Qualified auditor
Qualification certificate
No. MF-0000095
dated 27 August 2012,
the Republic of Kazakhstan

Deloitte, LLP

Deloitte, LLP
State audit license of the 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 2014
Almaty, the Republic of Kazakhstan

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(in thousands of tenge)

	Notes	31 December 2013	31 December 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	4	498,131	523,186
Intangible assets	5	147,596	133,917
Investment property	6	35,674	45,196
Investments in subsidiaries	7	5,920,099	5,834,130
Investments in associates	8	313,132	302,580
Investments in joint ventures	9	1,503,542	1,355,976
Loans given	10	3,176,651	-
Deferred tax assets	30	546,073	196,802
Other non-current assets	11	93,585	58,267
		12,234,483	8,450,054
CURRENTS ASSETS:			
Inventories	12	262,441	244,395
Trade and other receivables	13	185,685	277,379
Income tax prepaid		228,591	3,521
Other taxes recoverable		141,520	3,525
Short-term financial investments	14	20,110,038	-
Loans given	10	10,149,857	7,401,767
Other current assets	15	230,574	324,200
Cash	16	9,281,424	7,258,319
		40,590,130	15,513,106
TOTAL ASSETS		52,824,613	23,963,160
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	17	12,101,802	12,101,802
Additional paid-in-capital	18	412,406	314,689
Accumulated deficit		(1,905,947)	(1,796,583)
		10,608,261	10,619,908
NON-CURRENT LIABILITIES:			
Debt securities issued	19	40,556,598	4,327,836
		40,556,598	4,327,836

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2013
(in thousands of tenge)

	Notes	31 December 2013	31 December 2012
CURRENT LIABILITIES:			
Non-bank borrowings	20	-	4,910,317
Current portion of debt securities issued	19	183,026	34,005
Trade and other payables	21	1,216,380	2,928,766
Income tax payable		-	225,070
Other taxes payable	22	82,530	245,215
Other current liabilities	23	177,818	672,043
		1,659,754	9,015,416
TOTAL EQUITY AND LIABILITIES		52,824,613	23,963,160

On behalf of the management of the Company

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

Bolat Smagulov
Chairman

Aliya Zhetenova
Managing Director

Aizhan Burkitbayeva
Chief Accountant

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-42 form an integral part of these separate financial statements. The Independent Auditors' Report is on pages 2-3.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	2013	2012
REVENUE	24	5,278,992	18,666,806
COST OF SALES	25	(5,018,486)	(16,131,891)
GROSS PROFIT		260,506	2,534,915
General and administrative expenses	26	(1,463,592)	(1,271,519)
Selling expenses		(100,644)	(83,155)
Provisions	27	(554,481)	(2,286,023)
Other income		171,722	40,414
Other expenses		(101,320)	(54,947)
Foreign exchange (loss)/gain		(25,280)	12,923
Dividends income		1,928,397	1,178,545
Finance income	28	1,263,548	415,053
Finance costs	29	(1,408,446)	(388,514)
(LOSS)/PROFIT BEFORE INCOME TAX		(29,590)	97,692
INCOME TAX BENEFIT/(EXPENSE)	30	598,770	(31,202)
PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR		569,180	66,490

On behalf of the management of the Company

Bolat Smagulov
Chairman

Aliya Zhetenova
Managing Director

Aizhan Burkitbayeva
Chief Accountant

5 March 2014
Astana, the Republic of Kazakhstan

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SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	Charter capital	Additional paid-in capital	Accumulated deficit	Total
At 1 January 2012		12,101,802	94,223	(4,500,518)	7,695,507
Profit and total comprehensive income for the year		-	-	66,490	66,490
Adjustment to revalued amount of investments at the date of contribution to charter capital of subsidiaries	7	-	-	3,330,650	3,330,650
Dividends	17	-	-	(693,205)	(693,205)
Fair value adjustment on loan received from Shareholder, less deferred tax effect of 55,117 thousand tenge	20	-	220,466	-	220,466
At 31 December 2012		12,101,802	314,689	(1,796,583)	10,619,908
Profit and total comprehensive income for the year		-	-	569,180	569,180
Dividends	17	-	-	(678,544)	(678,544)
Fair value adjustment on loan received from Shareholder, less deferred tax effect of 24,429 thousand tenge	20	-	97,717	-	97,717
At 31 December 2013		12,101,802	412,406	(1,905,947)	10,608,261

On behalf of the management of the Company

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

Bolat Smagulov / **Aliya Zhetenova**
Chairman / **Managing Director**

Aizhan Burkitbayeva
Chief Accountant

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-42 form an integral part of these separate financial statements. The Independent Auditors' Report is on pages 2-3.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	2013	2012
OPERATING ACTIVITY:			
(Loss)/profit before income tax		(29,590)	97,692
Adjustments for:			
Amortisation and depreciation	26	71,707	52,448
Foreign exchange loss/(gain)		25,280	(12,923)
Allowance for doubtful accounts	27	830,645	1,846,980
Recovery of allowance for impairment of investments	27	(15,798)	-
(Recovery)/accrual of provision for employee benefits	27	(121,134)	263,769
Loss on disposal of property, plant and equipment		360	-
(Recovery)/accrual of other provisions	27	(138,284)	138,284
(Recovery)/accrual of provision for unused vacation	27	(948)	36,990
Dividends income		(1,928,397)	(1,178,545)
Finance income	28	(1,263,548)	(415,053)
Finance costs	29	1,408,446	388,514
Difference between the carrying value of property, plant and equipment and the amount of contribution to subsidiary		(9,265)	-
Cash flows from operating activity before changes in working capital		(1,170,526)	1,218,156
Changes in working capital:			
Change in trade and other receivables		(45,007)	(314,185)
Change in advances given		(26,463)	109,469
Change in other taxes recoverable		(137,995)	3,508
Change in other assets		417,848	345,930
Change in inventories		(18,046)	(11,454)
Change in trade and other payables		(1,853,441)	2,785,330
Change in other taxes payable		(78,095)	126,721
Change in other current liabilities		(188,975)	73,285
Cash (used in)/generated by operating activity		(3,100,700)	4,336,760
Income tax paid		(225,070)	-
Interests paid		(965,239)	(97,396)
Net cash (used in)/generated by operating activity		(4,291,009)	4,239,364
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment		(46,911)	(98,963)
Acquisition of intangible assets	5	(28,721)	(87,166)
Acquisition of other non-current assets		(44,200)	-
Interest-free financial aid given to related parties	10	(15,697,266)	(10,656,548)
Proceeds from repayments of interest-free financial aid given to related parties	10	9,574,401	2,001,500
Acquisition of investments and contributions to subsidiaries	7	-	(546,984)
Proceeds from disposal of investment in subsidiary	7	3,409	8,507
Contributions to short-term financial investments	14	(20,027,800)	-
Dividends received		1,805,241	1,175,870
Interest received		184,382	-
Net cash used in investing activity		(24,277,465)	(8,203,784)

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY

SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013
(in thousands of tenge)

	Notes	2013	2012
FINANCING ACTIVITY:			
Proceeds from non-bank borrowings	20	4,700,000	5,000,000
Repayment of non-bank borrowings	20	(9,700,000)	(150,045)
Proceeds from debt securities issued		40,713,099	4,317,912
Redemption of debt securities		(4,335,637)	-
Dividends paid	17, 23	(744,544)	(743,205)
Net cash generated by financing activity		30,632,918	8,424,662
CHANGE IN CASH, net		2,064,444	4,460,242
CASH, at the beginning of the year		7,258,319	2,798,077
Effect of changes in foreign exchange rate on cash balances in foreign currency		(41,339)	-
CASH, at the end of the year	16	9,281,424	7,258,319

Significant non-cash transactions:

In 2013, the Company transferred to the charter capital of the subsidiary, Kazakhstan Aviation Industry LLP, property, plant and equipment with the carrying value of 24,463 thousand tenge (Note 4).

In 2012, the Company received industrial building as offset against receivables from JSC 832 Motor-repair Plant KE in the amount of 166,811 thousand tenge in accordance with the valuation of an independent appraiser.

On behalf of the management of the Company

Bolat Smagulov
Chairman

Aliya Zhetenova
Managing Director

Aizhan Burkitbayeva
Chief Accountant

5 March 2014
Astana, the Republic of Kazakhstan

The notes on pages 10-42 form an integral part of these separate financial statements. The Independent Auditors' Report is on pages 2-3.

1. GENERAL INFORMATION

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

As at 31 December 2013 and 2012, the Company's sole shareholder is JSC Sovereign Wealth Fund Samruk-Kazyna. As at 31 December 2013, the Company's 100% shares were transferred under trust management to the Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company is:

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

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

Number of employees of the Company as at 31 December 2013 was 94 people (31 December 2012: 80 people).

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

Statement of compliance with IFRS

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

These separate financial statements are the financial statements of the parent company, JSC Kazakhstan Engineering National Company. Subsidiaries were not consolidated to these separate financial statements. Investments to subsidiaries, associates and joint ventures were measured at cost less impairment losses. These separate financial statements shall be read in conjunction with the consolidated financial statements which were authorized for issue by the Company management on 5 March 2014.

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

Basis of measurement

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

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

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

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

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

Functional and presentation currency

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

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations adopted during the current year:

In the current year, the Company has adopted a number of new and revised IFRSs that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Company for the first time has adopted the following standards and amendments to them:

IFRS 11 Joint Arrangements,
IFRS 12 Disclosure of Interests in Other Entities,
IAS 27 (as revised in 2011) Separate Financial Statements, and
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures.

The adoption of the above standards did not have a material impact on the separate financial statements of the Company.

IFRS 11 replaces IAS 31 Interests in Joint Ventures, and the guidance contained in a related interpretation, SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

Management reviewed the classification of the Company's investments in joint arrangements in accordance with the requirements of IFRS 11. Management concluded that the Company's investments in all joint arrangements should be classified as joint ventures under IFRS 11 and measured at cost less impairment losses in the separate financial statements.

IFRS 12 is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

The Company has applied the amendments to **IFRS 7** Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the separate financial statements.

The Company has applied **IFRS 13** Fair Value Measurement for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Note 32 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the separate financial statements.

The Company has applied **the amendments to IAS 1** Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In addition, the Company adopted the amendments to various other standards that were part of the annual initiative aimed at the general improvement of the effective International Financial Reporting Standard. These amendments were related to certain expressions and issues regarding presentation of the financial statements, issues of recognition and measurement. The improvements have led to a number of changes in the detail of the Company's accounting policies – some of which are changes in terminology only and had no material effect on amounts reported.

Standards and Interpretations issued but not effective

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

	Effective for annual periods beginning on or after
IFRS 9 Financial instruments	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	1 January 2014
Amendments to IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IAS 36 Impairment of Assets	1 January 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	1 January 2014
IFRIC 21 Levies	1 January 2014

Management of the Company anticipates that all of the Standards and Interpretations will be adopted in the separate financial statements of the Company for the period, beginning from the date when the standards will be effective, and adoption of these Standards and Interpretations will not have material effect on the separate financial statements of the Company in the period of the initial application.

Significant accounting policies

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and 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 property, plant and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

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

Investments in subsidiaries

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

Investments in associates and joint ventures

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make sale, selling and distribution. Cost is calculated using the weighted average method.

Recognition of financial instruments

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

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

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

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

Financial assets

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

Cash

Cash comprise cash in bank and cash on hand.

Trade accounts receivable

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

Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are measured at amortised cost using the effective interest method, less any impairment. Income and expenses arising upon derecognition of the assets in the financial statements as well as upon impairment and amortisation is recognised in the separate statement of comprehensive income.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the following occurred: a significant change in the estimated future cash flows of the investment; significant financial difficulty of the issuer or counterparty; breach of contract, such as a default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or the disappearance of an active market for that financial asset because of financial difficulties. For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the 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 the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

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

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

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

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

Trade and other payables

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

Interest-bearing loans and borrowings

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

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

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

Offsets

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Retirement benefit costs

The Company contributes 10% of each employee's salary to an employee pension fund, but no more than 139,950 tenge per month (2012: no more than 130,792 tenge per month). Pension fund contributions are withheld from employee salaries and included in payroll costs in the separate statement of comprehensive income.

Provisions

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

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

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and the title has been transferred.

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

Dividends and interests income

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

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

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 Company as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company'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 Company'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 Company as a lessee

Assets held under finance leases are initially recognised as assets of the Company 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 separate 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 expenses 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 Company's general policy on borrowing costs (see 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.

Foreign currency transactions

In preparing the separate financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Taxation

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

Current tax

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

Deferred tax

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

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

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

Current and deferred tax for the year

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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, JSC KAMAZ-Engineering, Indra Kazakhstan Engineering LLP as associates

The Company holds 25% and more interests in JSC ZIKSTO, JSC KAMAZ-Engineering, Indra Kazakhstan Engineering LLP and other associates. Management of the Company believes that the 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 (Note 8).

Useful lives of property, plant and equipment

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

Warranty obligations

Provision for warranties issued is recognised upon sale of relevant goods and services. The amount of such provision is calculated on the basis of historical data accumulated for prior periods measuring all possible outcomes at the ratio of their likelihood.

Impairment of assets

At each reporting date the Company management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. The determination of impairment of property, plant and equipment is based on a large number of factors, such as expectations of growth, expected cash flow, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

If any such indication exists, the Company estimates the recoverable amount of the asset and compares it with the carrying amount of an asset. If the carrying amount exceeds the recoverable value of the asset, the asset is considered impaired. The recoverable value is determined as the greater of two amounts: fair value of the asset less selling expenses and value in use. In estimating the value in use the estimated future cash flows are discounted to their current value using discount rate before tax, which, in the management's opinion, reflects the current market estimate of time value of money and risks inherent in assets. A change in estimated recoverable value can result in impairment or its reversal in the future periods.

Measurement of inventories

Inventories are measured at the lower of the cost or net realisable value. The Company recognises a relevant provision reducing the cost of slow-moving and obsolete inventories to net realisable value. Actual sales amount from disposal of such inventories can differ from net realisable value and any such difference can have a significant impact on future operating results.

Taxation

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

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

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 2013. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and construction	Machinery, equipment and vehicles	Other assets	Construction in progress	Total
Cost:						
At 1 January 2012	1,742	220,264	120,312	53,888	8,033	404,239
Additions	36,878	129,933	58,155	23,638	17,170	265,774
Internal transfer	-	-	-	17,170	(17,170)	-
At 31 December 2012	38,620	350,197	178,467	94,696	8,033	670,013
Additions	-	-	23,017	23,893	363	47,273
Contribution to the charter capital of the subsidiary (Note 7)	(5,456)	(19,007)	-	-	-	(24,463)
Internal transfer	-	80,828	(88,532)	7,704	-	-
Disposals	-	(6,819)	-	(3,986)	(363)	(11,168)
At 31 December 2013	33,164	405,199	112,952	122,307	8,033	681,655
Accumulated depreciation and impairment:						
At 1 January 2012	-	(45,406)	(42,553)	(23,331)	-	(111,290)
Charge for the year	-	(15,774)	(8,449)	(11,314)	-	(35,537)
At 31 December 2012	-	(61,180)	(51,002)	(34,645)	-	(146,827)
Charge for the year	-	(16,046)	(12,129)	(18,968)	-	(47,143)
Disposal	-	6,819	-	3,627	-	10,446
Internal transfer	-	(28,872)	31,566	(2,694)	-	-
At 31 December 2013	-	(99,279)	(31,565)	(52,680)	-	(183,524)
Carrying value:						
At 31 December 2013	33,164	305,920	81,387	69,627	8,033	498,131
At 31 December 2012	38,620	289,017	127,465	60,051	8,033	523,186

Cost of fully depreciated property, plant and equipment as at 31 December 2013 and 2012 was 17,833 thousand tenge and 7,196 thousand tenge, respectively.

As at 31 December 2013 and 2012, the Company has property, plant and equipment with the carrying value of 208,627 thousand tenge and 221,992 thousand tenge, respectively, which were removed from active service and put into conservation. The Company management believes that these property, plant and equipment are not impaired as their availability allows the Company to have licenses required to carry out its principal activity.

In 2013, the Company transferred property, plant and equipment with the carrying value of 24,463 thousand tenge as a contribution to the charter capital of the subsidiary, Kazakhstan Aviation Industry LLP (Note 7).

5. INTANGIBLE ASSETS

	Software	Other	Total
Cost:			
At 1 January 2012	29,448	85,018	114,466
Additions	87,166	-	87,166
At 31 December 2012	116,614	85,018	201,632
Additions	26,855	1,866	28,721
At 31 December 2013	143,469	86,884	230,353
Accumulated amortisation and impairment:			
At 1 January 2012	(25,394)	(34,967)	(60,361)
Charge for the year	(1,686)	(5,668)	(7,354)
At 31 December 2012	(27,080)	(40,635)	(67,715)
Charge for the year	(9,374)	(5,668)	(15,042)
At 31 December 2013	(36,454)	(46,303)	(82,757)
Carrying value:			
At 31 December 2013	107,015	40,581	147,596
At 31 December 2012	89,534	44,383	133,917

6. INVESTMENT PROPERTY

	2013	2012
Cost:		
At 1 January	119,463	119,463
At 31 December	119,463	119,463
Accumulated depreciation and impairment:		
At 1 January	(74,267)	(64,710)
Charge for the year	(9,522)	(9,557)
At 31 December	(83,789)	(74,267)
Carrying value:		
At 31 December	35,674	45,196

Information about the investment property as well as the fair value hierarchy as at 31 December 2013 is as follows:

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Building with office space in Astana	-	-	399,590	399,590

The Company assessed the fair value of investment property as at 31 December 2013. In estimating the fair value of the investment property, the highest and best use of the property was considered to be its current use.

Due to lack of exact comparable market for this investment property such assessment of fair value relates to Level 3 of the fair value hierarchy.

The fair value estimate of investment property of Level 3 was determined based on the comparable sales method. Market sales prices of comparable property located in close proximity are adjusted to reflect the difference of key performance indicators (such as the size of the property). Key data used in this estimate is the price per square meter.

For the purposes of analysis of the fair value hierarchy of investment property, the Company applied market comparable approach that reflects recent transaction prices for similar properties in Astana city located near the this property.

7. INVESTMENTS IN SUBSIDIARIES

	31 December 2013	31 December 2012
JSC Kirov Machinery Plant	1,804,110	1,804,110
JSC Petropavlovsk heavy machinery construction plant	873,480	873,480
JSC Semey Engineering	530,203	479,030
SRI Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction)	515,718	515,718
JSC S.M. Kirov Plant	493,386	493,386
JSC Tynys	484,162	484,162
JSC Semipalatinsk Machinery Construction Plant	437,472	437,472
JSC KazEng Electronics	429,789	429,789
JSC Omega Instrument Making Plant	285,620	285,620
JSC Munaymash	212,567	212,567
Kazakhstan Aviation Industry LLP	185,852	152,125
JSC 832 Motor-repair Plant KE	143,866	143,866
JSC Uralsk Plant Zenith	120,637	120,637
JSC Research Institute Hydropribor	102,402	102,402
JSC 811 Motor-repair Plant KE	80,153	80,153
Kuzet LLP	-	4,177
	6,699,417	6,618,694
Less: allowance for impairment	(779,318)	(784,564)
	5,920,099	5,834,130

In March 2004, the Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan ("Former Shareholder") had made a contribution to the charter capital of the Company by shares in subsidiaries in the amount of 4,498,094 thousand tenge, which were valued by independent appraisers. In the financial statements as at 31 December 2011, investments in subsidiaries were stated at cost less impairment losses. In 2012, the Company made a decision to reflect the investments at their revalued amount at the date of contribution and recognised the adjustment in the amount of 3,330,650 thousand tenge in the separate statement of changes in equity. The Company has not performed impairment test of the investments.

During 2012, the Company acquired a 100% interest in the Kazakhstan Aviation Industry LLP for cash in the amount of 120 thousand tenge. Subsequently, in 2012, the Company increased the charter capital of this company by cash in the amount of 152,005 thousand tenge.

During 2013, the Company increased the charter capital of this company by transfer of the property, plant and equipment with revalued amount of 33,727 thousand tenge. The carrying value of the property, plant and equipment amounted to 24,463 thousand tenge (Note 4).

During 2012, the Company increased the charter capital of SRI Kazakhstan Engineering LLP by cash in the amount of 394,859 thousand tenge and by non-monetary assets in the amount of 9,134 thousand tenge.

Increased investment in JSC Semey Engineering represents a fair value adjustment on interest-free loan (Note 10).

In August 2013, the Company sold 65% ownership interest in inactive subsidiary Kuzet LLP at a cost of 3,409 thousand tenge to a third party. As a result, the Company accounts for the remaining ownership interest of 35% as other investments at carrying value of 768 thousand tenge.

On 11 October 2012, the Company sold a 51% ownership interest in a subsidiary Kazakhstan engineering Distribution LLP for 8,507 thousand tenge, as a result of which started to account for the remaining interest as an investment in associate (Note 8).

The movement in allowance for impairment for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
At the beginning of the year	(784,564)	(791,743)
Accrued for the year (Note 27)	5,246	-
Transfer to associates (Note 8)	-	7,179
At the end of the year	(779,318)	(784,564)

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

Subsidiaries	Principal activity	Place of incorpo-ration	Ownership share 31 December 2013	31 December 2012
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
SRI Kazakhstan Engineering LLP	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
JSC Omega 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 Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of automotive vehicles	Kazakhstan	100%	100%

Subsidiaries	Principal activity	Place of incorporation	Ownership share 31 December 2013	Ownership share 31 December 2012
JSC Uralsk plant Zenith	Lifeboats and ships for Naval Forces of Kazakhstan; engineering and manufacture of steel constructions, spare parts for oil and gas complex	Kazakhstan	95%	95%
JSC 811 Motor-repair Plant KE	Repair of automotive vehicles, armour, power packs and power plants; modernization of equipment	Kazakhstan	100%	100%
JSC Research Institute Hydropribor	Engineering and research as well as manufacturing of sea and river lifeboats, ships, vessels and other water crafts and underwater vehicles, surface and air robots and lifeboats, equipment for underwater examination and repair of pipelines, boring rigs, underwater facilities	Kazakhstan	93%	93%
Kuzet LLP	Security services	Kazakhstan	-	35%

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

8. INVESTMENTS IN ASSOCIATES

Name of associate	Principal activity	31 December 2013 Cost	31 December 2013 Ownership interest, %	31 December 2012. Cost	31 December 2012. Ownership interest, %
JSC ZIKSTO	Repair of freight rail cars, repair of wheel sets with replacement of elements	20,455	42%	20,455	42%
Kaz-ST Engineering Bastau LLP	Investment holding activity and provision of defence, engineering services	42,864	49%	42,864	49%
KAMAZ-Semei LLP	Commercial activity	1,000	49%	1,000	49%
JSC KAMAZ-Engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	207,000	25%	207,000	25%
Indra Kazakhstan engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	124,460	49%	124,460	49%
LLP Kazakhstan engineering Distribution	Sale of products manufactured by the entities of the Group, attracting investments, participation in state programmes and tenders for equipment supply	8,174	49%	8,174	49%
		403,953		403,953	
Less: allowance for impairment		(90,821)		(101,373)	
		313,132		302,580	

The movement in allowance for impairment for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
At the beginning of the year	(101,373)	(94,194)
Recovery (Note 27)	10,552	-
Transfer from subsidiaries (Note 7)	-	(7,179)
At the end of the year	(90,821)	(101,373)

9. INVESTMENTS IN JOINT VENTURES

Name of joint venture	Principal activity	31 December 2013	31 December 2012
Thales Kazakhstan Engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment	87,336	87,336
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	265,993	118,427
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	1,150,213	1,150,213
		1,503,542	1,355,976

During 2013, the Company recognised a fair value adjustment on loan given to Kazakhstan ASELSAN engineering LLP within the investments in the amount of 147,566 thousand tenge (2012: 72,991 thousand tenge) (Note 10).

10. LOANS GIVEN

	31 December 2013	31 December 2012
JSC Semey Engineering	5,123,330	2,800,000
Kazakhstan ASELSAN engineering LLP	2,732,911	2,200,000
JSC Petropavlovsk Heavy Machinery Building Plant	1,840,125	250,000
JSC Kirov Machinery Plant	1,768,866	1,608,075
JSC Tynys	1,595,787	1,418,600
JSC S.M. Kirov Plant	1,586,053	910,600
Kazakhstan Aviation Industry LLP	641,602	-
JSC Uralsk Plant Zenith	270,225	-
JSC Semipalatinsk Machinery Construction Plant	255,773	249,718
JSC Omega Instrument Making Plant	-	18,943
	15,814,672	9,455,936
Less: fair value adjustment	(39,919)	(222,809)
	15,774,753	9,233,127
Allowance for doubtful debts	(2,448,245)	(1,831,360)
	13,326,508	7,401,767
Current portion	9,928,997	7,401,767
Accrued interest	220,860	-
Non-current portion	3,176,651	-
	13,326,508	7,401,767

Movement in allowance for doubtful debts for the years ended 31 December 2013 and 2012 is presented as follows:

	2013	2012
At the beginning of the year	(1,831,360)	(267,545)
Accrued for the year (Note 27)	(616,885)	(1,563,815)
At the end of the year	(2,448,245)	(1,831,360)

During 2013, the Company provided interest-free financial aid and loans with the interest rate of 7.5% to subsidiaries and joint ventures in the amount of 15,697,266 thousand tenge (2012: 10,656,548 thousand tenge). Also in 2013, the interest-free financial aid was repaid in the amount of 9,574,401 thousand tenge (2012: 2,001,500 thousand tenge).

In addition, during 2013, the Company has renegotiated the terms of certain agreements on interest-free financial aid, consequently the maturities of some loans were extended and the interest of 7.5% per annum was imputed in certain agreements. At the time of renegotiation the terms of agreements, the Company estimated the fair value of these loans and recognised the fair value adjustment in the amount of 198,739 thousand tenge (2012: 367,819 thousand tenge) within the investments in subsidiaries (Note 7).in the amount of 51,173 thousand tenge and investments in joint ventures (Note 9) in the amount of 147,566 thousand tenge. For the purposes of estimation the fair value of financial aid the Company has applied the initial effective interest rate of 7%. Also, as a result of renegotiation the terms of the loan given to Kazakhstan ASELSAN engineering LLP, the repayment amount in tenge was pinned to U.S. dollar at exchange rate as of date of repayment.

For the years ended 31 December 2013 and 2012, income from amortisation of fair value adjustment amounted to 381,629 thousand tenge and 184,958 thousand tenge, respectively (Note 28).

For the year ended 31 December 2013, interest income on loans given amounted to 441,636 thousand tenge (Note 28).

11. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012
Prepaid expenses	-	9,650
Intangible asset creation costs	88,400	44,200
Other investments	5,185	4,417
	93,585	58,267

12. INVENTORIES

	31 December 2013	31 December 2012
Goods	225,438	225,123
Raw materials	37,003	19,272
	262,441	244,395

13. TRADE AND OTHER RECEIVABLES

	31 December 2013	31 December 2012
Trade receivables from subsidiaries (Note 33)	730,862	81,170
Trade receivables from related parties (Note 33)	55,737	630,263
Other receivables	12,303	25,741
	798,902	737,174
Allowance for doubtful debts (Note 33)	(613,217)	(459,795)
	185,685	277,379

Movement in allowance for doubtful debts for the years ended 31 December 2013 and 2012 is presented as follows:

	2013	2012
At the beginning of the year	(459,795)	(176,926)
Accrued during the year (Note 27)	(153,474)	(283,165)
Written-off against previously created allowance	52	296
At the end of the year	(613,217)	(459,795)

As at 31 December 2013 and 2012 trade and other receivables are denominated in tenge.

14. SHORT-TERM FINANCIAL INVESTMENTS

As at 31 December 2013, short-term financial investments represented a bank deposit at JSC Tsesna Bank of 20,110,038 thousand tenge (130,534 thousand U.S. dollars), including accrued interest of 82,238 thousand tenge (534 thousand U.S. dollars), with a maturity of 12 months and bearing an interest of 5% per annum (31 December 2012: nil).

15. OTHER CURRENT ASSETS

	31 December 2013	31 December 2012
Receivables from related parties for penalties and fines on loans given (Note 33)	97,810	-
Guarantees as the security of execution of the contracts (Note 33)	91,441	283,895
Short-term advances to related parties (Note 33)	57,964	1,773
Prepaid expenses	22,443	7,013
Interest receivable	19,990	-
Short-term advances to third	1,212	31,519
	290,860	324,200
Less: allowance for doubtful debts (Note 33)	(60,286)	-
	230,574	324,200

An allowance for doubtful debts in the amount of 60,286 thousand tenge was fully recognised in 2013 (Note 27).

As at 31 December 2013 and 2012 other current assets are denominated in tenge.

16. CASH

	31 December 2013	31 December 2012
Cash on bank accounts in tenge	6,199,024	7,258,227
Cash on bank accounts in U.S. dollars	3,082,400	-
Petty cash in tenge	-	92
Total	9,281,424	7,258,319

17. CHARTER CAPITAL

As at 31 December 2013 and 2012, authorised, issued and fully paid-up charter capital of the Company consisted of 12,101,802 common shares with the par value of 1,000 tenge, each.

As at 31 December 2013 and 2012, 100% Company's shares belong to JSC SWF Samruk-Kazyna.

In 2013, the Company declared and paid dividends to the sole Shareholder for 2012 in the amount of 678,544 thousand tenge (in 2012: for for 2010-2011 in the amount of 48,352 thousand tenge and 644,853 thousand tenge, respectively).

18. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2013 and 2012, additional paid-in capital amounted to 412,406 thousand tenge and 314,689 thousand tenge, respectively. Additional paid-in capital includes the fair value adjustment on loan received from the Shareholder, net of deferred tax effect (Note 20).

19. DEBT SECURITIES ISSUED

	Maturity	Coupon rate	31 December 2013	31 December 2012
Bonds issued at price of 95.2341% -Tranche 1	6 November 2015	5%	4,534,000	4,534,000
Bonds issued at price of 96.4613% - Tranche 2	6 November 2015	5%	1,200,000	-
Bonds issued at price of 96.9239% - Tranche 3	6 November 2015	5%	1,000,000	-
Bonds issued at price of 97.3266% - Tranche 4	6 November 2015	5%	1,885,000	-
Bonds issued at price of 97.8540% - Tranche 5	6 November 2015	5%	1,765,000	-
Eurobonds issued at a price of 100%	3 December 2016	4.55%	30,812,000	-
Including/(less):				
Accrued coupon			183,026	34,005
Transaction costs			(315,935)	(10,164)
Discount on debt securities issued			(323,467)	(196,000)
Total bonds placed			40,739,624	4,361,841
Less: current portion of debt securities issued			(183,026)	(34,005)
Non-current portion of debt securities issued			40,556,598	4,327,836

Local bonds

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

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

During February-April 2013, the Company placed 103,150 thousand bonds with par value of 100 tenge totalling 10,315,000 thousand tenge.

Eurobonds

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

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

Out of proceeds from the Eurobonds issuance, the Company redeemed a portion of its 44,650 thousand local bonds totalling 4,465,000 thousand tenge (Tranches 2 and 4).

20. NON-BANK BORROWINGS

	31 December 2013	31 December 2012
JSC Sovereign Wealth Fund Samruk-Kazyna	-	5,017,084
Less: fair value adjustment	-	(106,767)
	-	4,910,317

In 2012, the Company received a loan from the Shareholder of 5,000,000 thousand tenge with an annual interest rate of 3% with a maturity until 30 December 2013. Principal amount is paid at maturity date and interests are paid monthly. The loan was aimed for financing the creation of centre for production of electronic-optical equipment in Kazakhstan and for creation of own production for modernisation, engineering-technical support and maintenance of defence purposes equipment on the basis of subsidiary. The Company measured the fair value of this loan using the effective interest rate of 7%, and recognised a fair value adjustment of 275,583 thousand tenge, net of tax effect of 55,117 thousand tenge as an additional paid-in capital in the separate statement of changes in equity.

In 2013, the Company received a loan from the Shareholder in the amount of 4,700,000 thousand tenge, bearing an interest rate of 4% per annum, with a maturity until 31 December 2013. The loan was provided for the working capital replenishment of the Company for the implementation of sales contracts in relation to the civil sector. The Company measured the fair value of the loan using the effective interest rate of 7%, and recognised a fair value adjustment of 122,146 thousand tenge, net of tax effect in the amount of 24,429 thousand tenge as an additional paid-in capital in the separate statement of changes in equity.

During 2013, both loans were fully repaid.

For the year ended 31 December 2013, amortisation of fair value adjustment on loans received amounted to 228,912 thousand tenge (2012: 191,034 thousand tenge) (Note 29).

21. TRADE AND OTHER PAYABLES

	31 December 2013	31 December 2012
Accounts payable to related parties (Note 33)	639,618	2,681,415
Accounts payable to subsidiaries (Note 33)	13,785	35,409
Accounts payable to third parties	562,977	211,942
	1,216,380	2,928,766

As at 31 December 2013 and 2012 trade and other payables are denominated in the following currencies:

	31 December 2013	31 December 2012
Tenge	1,202,548	2,326,732
U.S. dollars	13,832	602,034
	1,216,380	2,928,766

22. OTHER TAXES PAYABLE

	31 December 2013	31 December 2012
Social tax	36,780	14,832
Personal income tax	34,047	11,342
VAT payable	-	209,823
Other taxes	11,703	9,218
	82,530	245,215

23. OTHER CURRENT LIABILITIES

	31 December 2013	31 December 2012
Guarantees for execution of contracts to related parties (Note 33)	93,732	61,470
Provision for employee benefits	39,900	332,769
Provision for unused vacation	22,435	61,603
Salary payable	14,899	805
Other payables	6,852	11,111
Provision for fines on taxes	-	90,028
Dividends payable	-	66,000
Other provisions	-	48,257
	177,818	672,043

As at 31 December 2013, the Company recovered a provision for fines on tax liabilities for 2012 in the amount of 90,028 thousand tenge due to the absence of taxable income for 2012 as a result of submission of final declaration (2012: provision in the amount of 90,028 thousand tenge was accrued) (Note 27).

As at 31 December 2012, other provisions include provision for professional development in the amount of 48,256 thousand tenge.

As at 31 December 2013 and 2012, other current liabilities are denominated in tenge.

24. REVENUE

	2013	2012
Revenue from sale of goods and rendering services (Note 33)	4,898,788	18,216,814
Revenue from managerial services (Note 33)	380,204	449,992
	5,278,992	18,666,806

Revenue from sale of goods and rendering services for 2012 included sale of the helicopters to ministries and agencies in the amount of 17,630,087 thousand tenge (2013: nil).

25. COST OF SALES

	2013	2012
Services from related parties (Note 33)	2,558,234	828,820
Cost of goods sold	2,203,892	15,303,071
Expenses related to rendering management services	256,360	-
	5,018,486	16,131,891

For the year ended 31 December 2013, services from related parties represent repair and modernisation of military equipment of 2,558,234 thousand tenge (2012: repair of military equipment and instructional services of 828,820 thousand tenge).

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Payroll and related taxes	677,282	635,197
Rent	154,036	113,634
Personnel outsourcing	97,129	33,143
Professional services	83,224	113,767
Business trips and representative expenses	79,566	81,770
Depreciation and amortisation	71,707	52,448
Taxes	67,364	109,801
Communication	55,669	5,870
Expenses for a board of directors	52,253	8,747
Materials	20,329	9,551
Informational services	18,835	29,900
Professional education and qualification development	12,510	4,427
Repair and maintenance	12,369	884
Security	6,158	19,298
Utilities	4,749	3,923
Insurance	1,675	8,519
Other	48,737	40,640
	1,463,592	1,271,519

27. PROVISIONS

	2013	2012
Accrual of allowance for doubtful debts	830,645	1,846,980
(Recovery)/accrual of provision for employees benefits	(121,134)	263,769
(Recovery)/accrual of provision for unused vacation	(948)	36,990
(Recovery)/accrual of provision for fines on taxes	(90,028)	90,028
(Recovery)/accrual of other provisions	(48,256)	48,256
Recovery of provision for impairment of investments	(15,798)	-
	554,481	2,286,023

28. FINANCE INCOME

	2013	2012
Interest income on loans given (Notes 10 and 33)	441,636	-
Interest income on current accounts and deposits	440,283	230,077
Amortisation of fair value adjustment on loans given (Note 10)	381,629	184,958
Other	-	18
	1,263,548	415,053

For the year ended 31 December 2013, interest income on current accounts include revenue from a related party (JSC BTA Bank) in the amount of 47,778 thousand tenge (2012: 196,269 thousand tenge) (Note 33).

29. FINANCE COSTS

	2013	2012
Interests on issued bonds	708,382	34,005
Interests on borrowings	245,021	131,667
Amortisation of fair value adjustment on loans received (Note 20)	228,912	191,034
Unwinding of discount on issued bonds	205,015	9,924
Other finance costs	21,116	21,884
	1,408,446	388,514

30. TAXATION

The income tax rate in the Republic of Kazakhstan, where the Company operates, was 20% in 2013 and 2012.

	2013	2012
Current income tax expense	-	225,070
Adjustment of current income tax for prior years	(225,070)	-
Deferred income tax benefit	(373,700)	(193,868)
Income tax (benefit)/expense	(598,770)	31,202

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2013 and 2012:

	31 December 2013	31 December 2012
Deferred tax assets:		
Loans given	7,212	44,562
Tax losses carried forward	420,839	15,615
Allowance for doubtful debts	134,301	91,959
Allowance for unused vacation, bonuses and other provisions	12,471	88,526
Taxes	7,358	2,965
Total deferred tax assets	582,181	243,627
Deferred tax liabilities		
Property, plant and equipment and intangible assets	(36,108)	(25,472)
Borrowings	-	(21,353)
Total deferred tax liabilities	(36,108)	(46,825)
Net deferred tax assets	546,073	196,802

As at 31 December, deferred tax assets are recognised as follows:

	31 December 2013	31 December 2012
In equity	(24,429)	(55,117)
In the statement of comprehensive income	373,700	193,868

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

	2013	2012
(Loss)/profit before income tax	(29,590)	97,692
Theoretical tax at statutory income tax rate of 20%	(5,918)	19,538
Change in unrecognised deferred assets	-	(32,298)
Adjustment of current income tax for prior years	(225,070)	-
Tax effect from permanent differences	(367,782)	43,962
Income tax (benefit)/expense	(598,770)	31,202

31. CONTINGENT LIABILITIES

Tax and regulatory environment

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

Legal issues

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

Environmental matters

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

Insurance

The Company does not insure its production assets, nor does it have third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these separate financial statements as at 31 December 2013.

Market limitation

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

32. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT

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

Capital adequacy management

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

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

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

The Company is not subject to externally imposed equity requirements.

The Company's capital structure includes net debt (which is comprised of loans, debt securities issued as disclosed in Notes 19 and 20, after deducting cash and short-term financial investments) and equity of the Company (which is comprised of charter capital, additional paid-in capital and accumulated deficit as disclosed in Notes 17 and 18).

	31 December 2013	31 December 2012
Borrowed funds	40,739,624	9,272,158
Cash and short-term financial investments	(29,391,462)	(7,258,319)
Net debt	11,348,162	2,013,839
Equity	10,608,261	10,619,908
Net debt to equity ratio	106.97%	18.96%

Significant accounting policies

Information about significant accounting policies and methods adopted, including criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised in respect of each class of financial assets, financial liabilities and equity instruments are disclosed in Note 2 to the separate financial statements.

Financial risk management objectives

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

Interest rate risk

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

Currency risk

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

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

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company 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.

The Company seeks to prevent the open currency positions, i.e. provides full coverage of foreign exchange risk, accordingly the direct impact on equity is not expected. .

Exposure to currency risk

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

	U.S. dollars	
	31 December 2013	**31 December 2012**
Financial assets:		
Cash	3,082,400	-
Short-term financial investments	20,110,038	-
Interest-free financial aid	2,160,081	-
Financial liabilities:		
Debt securities issued	(30,648,766)	-
Trade accounts payable	(13,832)	(602,034)
Net effect	(5,310,079)	(602,034)

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

	2013	**2012**
U.S. dollars Доллары США	154.06	150.74

Sensitivity analysis

A 20% weakening of tenge as at 31 December 2013 and 10% as at 31 December 2012 against the following currencies would have increased equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	U.S. dollars	
	31 December 2013	**31 December 2012**
Profit or loss	(1,062,016)	(60,203)
Accumulated deficit	(1,062,016)	(60,203)

For the years ended 31 December 2013 and 2012, strengthening of tenge respectively for 20% and 10% against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, assuming that all other variables remain constant.

Credit risk

Credit risk arising from non-performing contract terms with the Company's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Company to the contractors. The Company's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Company believes that the maximum risk is the sum of its trade and other receivables (Note 13), loans given (Note 10), less allowance for doubtful accounts reflected at the reporting date.

Concentration of credit risk can arise when there are multiple amounts owed by a borrower or a group of borrowers with similar conditions for which there is reason to expect that changes in economic conditions or other circumstances may equally affect their ability to fulfil its obligations.

The Company has a policy, providing continuous monitoring to ensure that transactions concluded with customers who have an adequate credit history and do not exceed credit limits.

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

Market risk

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

Liquidity risk

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

Available credit funds

	31 December 2013	31 December 2012
Debt securities:		
-placed	41,196,000	4,534,000
-unplaced	19,616,000	25,466,000
	60,812,000	30,000,000

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

	Interest	1 month–1 year	1-5 years	More than 5 years	Total
31 December 2013					
Non-interest bearing:					
Trade and other payables	-	1,216,380	-	-	1,216,380
Other current liabilities	-	115,483	-	-	115,483
Interest bearing:					
Debt securities issued	4.55-5%	2,104,172	43,696,664	-	45,800,836

	Interest	1 month–1 year	1-5 years	More than 5 years	Total
31 December 2012					
Non-interest bearing:					
Trade and other payables	-	2,928,766	-	-	2,928,766
Other current liabilities	-	139,386	-	-	139,386
Non-bank borrowings	3%	5,098,333	-	-	5,098,333
Debt securities issued	5%	226,700	4,987,400	-	5,214,100

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

	Interest	1 month– 1 year	1-5 years	More than 5 years	Total	Interest
31 December 2013						
Non-interest bearing:						
Guarantees as security of execution of contracts	-	91,441	-	-	-	91,441
Loans given	-	2,200,000	-	-	-	2,200,000
Cash	-	9,281,424	-	-	-	9,281,424
Trade and other receivables	-	185,685	-	-	613.217	798,902
Interest bearing:						
Loans given	7.5%	9,010,877	3,793,328	-	2,448.245	15,252,450
Short-term financial investments	5%	21,041,887	-	-	-	21,041,887
31 December 2012						
Non-interest bearing:						
Guarantees as security of execution of contracts	-	283,895	-	-	-	283,895
Loans given	-	7,624,576	-	-	1,831,360	9,455,936
Cash	-	7,258,227	-	-	-	7,258,227
Trade and other receivables	-	277,379	-	-	459,795	737,174

Fair value

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

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

Cash

The carrying value of cash equals to their fair value.

Short-term financial investments

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

Trade and other receivables and payables

For assets and liabilities with a maturity of less than twelve months, the carrying amount approximates fair value due to the relatively short maturity of these financial instruments.

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

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

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

	31 December 2013		31 December 2012	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Assets				
Loans to subsidiaries	10,633,516	10,633,516	5,233,577	5,233,577
Loans to a related party	2,692,992	2,692,992	2,168,190	2,168,190
Short-term financial investments	20,110,038	20,110,038	-	-
	33,436,546	33,436,546	7,401,767	7,401,767
Liabilities				
Borrowings	-	-	4,910,317	4,910,317
Debt securities issued	41,518,158	40,739,624	4,361,841	4,361,841
	41,518,158	40,739,624	9,272,158	9,272,158

Fair value hierarchy as at 31 December 2013

	As at 31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans to subsidiaries	-	10,633,516	-	10,633,516
Loans to a related party	-	2,692,992	-	2,692,992
Short-term financial investments	-	20,110,038	-	20,110,038
Financial liabilities				
Debt securities issued	41,518,158	-	-	41,518,158

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.

33. RELATED PARTY TRANSACTIONS

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

Transactions with related parties carried out by the Company for the years ended 31 December 2013 and 2012, were generally conducted in the course of normal activity and on terms equivalent to those that prevail in transactions between independent parties.

Receivables from related parties including interest-free financial aid, guarantees as security of execution of contracts, and advances given less allowance for doubtful debts as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013	31 December 2012
JSC Semey Engineering	5,187,652	2,894,321
Kazakhstan ASELSAN engineering LLP	2,694,149	2,169,150
JSC Kirov Machinery Plant	2,066,468	1,797,885
JSC Petropavlovsk heavy machinery construction plant	1,962,578	277,754
JSC Tynys	1,658,646	1,399,650
JSC S.M. Kirov Plant	1,637,375	892,448
Kazakhstan Aviation Industry LLP	641,602	-
JSC Semipalatinsk machinery construction plant	370,604	288,988
JSC Uralsk Plant Zenith	286,294	38,022
Ministries and agencies	91,441	283,895
JSC 832 Motor-repair Plant KE	71,628	6,201
JSC ZIKSTO	45,962	71,592
Kaz-ST Engineering Bastau LLP	44,800	-
Other	47,305	109,893
Less allowance for doubtful debts	(3,119,667)	(2,290,726)
	13,686,837	7,939,073

As at 31 December 2013 and 2012, the Company had cash on bank accounts of JSC BTA Bank in the amount of 25,001 thousand tenge and 5,613,509 thousand tenge, respectively, as well as on the bank accounts of JSC Temirbank in the amount of 22 thousand tenge and 10 thousand tenge, respectively.

Payables to related parties including loans, guarantees as security of execution of contracts and other payables as at 31 December 2013 and 2012 are presented as follows:

	31 December 2013	31 December 2012
JSC Aviarepair plant No.405	667,637	-
JSC Tynys	61,470	61,470
ASELSAN Elektronik Sanayi ve Ticaret A.S.	1,924	498,725
JSC SWF Samruk-Kazyna	-	4,976,317
Eurocopter Kazakhstan engineering LLP	-	2,180,952
Other	22,956	48,258
	753,987	7,765,722

For the years ended 31 December 2013 and 2012, the Company received revenue from the sale of goods and rendering services to ministries and agencies in the amount of 4,898,788 thousand tenge and 18,216,814 thousand tenge, respectively (Note 24).

For the years ended 31 December 2013 and 2012, the Company received revenue from the provision of management services to subsidiaries in the amount of 380,204 thousand tenge and 449,992 thousand tenge, respectively (Note 24).

For the years ended 31 December 2013 and 2012, the Company received interest income from JSC BTA Bank in the amount of 47,778 thousand tenge and 196,269 thousand tenge, respectively (Note 28).

For the years ended 31 December 2013 and 2012, the Company received interest income from subsidiaries in the amount of 441,636 thousand tenge and nil tenge, respectively (Note 28).

Expenditures related to services received and goods purchased from related parties for the years ended 31 December 2013 and 2012 are presented as follows:

	2013	2012
JSC Aviarepair plant No.405	2,558,234	573,601
JSC NC Kazakhstan Temir Zholy	152,131	110,481
Private Institution Corporate university Samruk-Kazyna	97,289	39,034
Kaz-ST Engineering Bastau LLP	52,530	-
The united centre of armament controlling systems introduction	37,750	29,401
JSC Airline Euro-Asia Air	19,955	-
JSC Rauan Media Group	13,973	5,590
JSC Semey Engineering	1,337	586,728
Eurocopter Kazakhstan engineering LLP	-	13,478,486
ASELSAN Elektronik Sanayi ve Ticaret A.S.	-	997,450
JSC 832 Motor-repair Plant KE	-	166,811
JSC Kazeng Electronics	-	73,437
Other	10,153	16,591
	2,943,352	16,077,610

For the years ended 31 December 2013 and 2012, compensation to the key management personnel amounted to 337,203 thousand tenge and 179,418 thousand tenge, respectively.

34. EVENTS AFTER THE REPORTING DATE

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to U.S. dollar fell to KZT 184.55 per U.S. dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the U.S. dollar at KZT 182-188 per U.S. dollar. As at 5 March 2014, the KZT to U.S. dollar official exchange rate is 182.46 KZT per U.S. dollar. However, uncertainty exists with respect to dynamics of exchange rate and its effect and further actions of National Bank.

The Company management believes that it has taken appropriate measures to support the sustainability of the Company under the current circumstances. However, a decrease in the KZT exchange rate could negatively affect the results and financial position of the Company in a manner not currently determinable.

On 17 February 2014, the Company's Board of Directors decided to approve the increase in the number of authorised common shares of the Company by 9,375,000 shares subject to approval by the Shareholder of the Company. The placement of shares is to be achieved by pre-emption purchase rights of the Shareholder of the Company. In case of non-purchase, the shares are to be sold to the Committee on State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan.

In 2014, the Company provided loans to subsidiaries and joint ventures in the amount of 2,018,026 thousand tenge with an interest rate of 7.5% per annum on the development of the activities of these enterprises.