IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR OTHERWISE EXCEPT TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached prospectus. In accessing the attached prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your representation: You have accessed the attached prospectus on the basis that you have confirmed and represented to Joint Stock Company Kazakhstan Engineering National Company (the "**Issuer**"), JSC Halyk Finance, UBS AG, London Branch and VTB Capital plc (collectively, the "**Managers**") that (1) you are a "Qualified Investor" (within the meaning of Article 2(1)(e) of Directive 2003/71/EC, as amended) if in the European Economic Area, (2) you are outside the United States, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and, to the extent you purchase the securities described in the attached prospectus, you will be doing so pursuant to Regulation S under the Securities Act, (3) the electronic mail address to which the attached prospectus has been delivered is not located in the United States (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (4) you consent to delivery of the attached prospectus and any amendments or supplements thereto by electronic transmission. The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Issuer, the Managers and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Managers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached prospectus is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described therein. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (AS SUCH TERM IS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED PROSPECTUS, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH PROSPECTUS IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED PROSPECTUS, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

The materials relating to the offering do not constitute and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Manager or such affiliate on behalf of the Issuer in such jurisdiction.

The attached prospectus is being distributed only to and directed only at (i) persons in Member States of the European Economic Area who are Qualified Investors, (ii) (in the United Kingdom) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "*relevant persons*"). The attached prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the attached prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession the attached prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this document contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. If you received this document by email, you should not reply by e-mail to this announcement and you may not purchase any securities by doing so. Any reply email communications, including those you generate by using the "*Reply*" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PRELIMINARY PROSPECTUS dated 7 November 2013 SUBJECT TO COMPLETION

This Preliminary Prospectus is being distributed for information only and is subject to completion and amendment. This Preliminary Prospectus shall not, and is not intended to, constitute or contain an offer to sell any of the Notes. This Preliminary Prospectus is an advertisement and does not comprise a prospectus for the purposes of EU Directive 2003/71/EC (as amended) as implemented in Ireland by the Prospectus Regulations (as defined herein). The definitive terms of the securities described herein will be described in the final version of this document. Investors should not subscribe for any securities referred to herein except on the basis of information contained in the final form of the Prospectus. When available, the final Prospectus will be made available to the public in accordance with EU Directive 2003/71/EC and investors may obtain a copy from the website of the Central Bank of Ireland (www.centralbank.ie).

Joint Stock Company KAZAKHSTAN ENGINEERING NATIONAL COMPANY

(a joint stock company registered in the Republic of Kazakhstan)

U.S.$[•],000,000 [•]% Notes due 20[•]

Issue Price [•]%

The U.S.$[•],000,000 [•]% Notes due 20[•] (the "**Notes**") will be issued by Joint Stock Company Kazakhstan Engineering National Company (the "**Issuer**" or the "**Company**") on [•] 2013 (the "**Issue Date**"). Interest on the Notes is payable semi-annually in arrear on [•] and [•] in each year, commencing on [•] 2014. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated [•] 2013 (the "**Trust Deed**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**"). Payments on the Notes will be made free and clear of, and without withholding or deduction for, or on account of, taxes of the Republic of Kazakhstan ("**Kazakhstan**") to the extent described under "*Terms and Conditions of the Notes—8. Taxation*".

The Notes may be redeemed by the Issuer in whole, but not in part, at 100% of their principal amount, plus accrued and unpaid interest (if any), if, as a result of a change of law, the Issuer becomes obliged to pay certain additional amounts and otherwise as described under "*Terms and Conditions of the Notes—6(b) Redemption for Taxation Reasons*". The Notes may be redeemed at the option of the Noteholders at 101% of their principal amount, plus accrued and unpaid interest (if any), under certain circumstances relating to a change of control, as described under "*Terms and Conditions of the Notes—6(c) Redemption at the Option of Noteholders upon a Change of Control*", or upon a Permitted Restructuring Event (as defined below), as described under "*Terms and Conditions of the Notes—6(d) Redemption at the Option of Noteholders upon a Permitted Restructuring Event*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 20[•] (the "**Maturity Date**").

The Notes will constitute unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Notes (the "**Conditions**")) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. See "*Terms and Conditions of the Notes—3. Status*".

AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS DESCRIBED UNDER THE SECTION HEADED "*RISK FACTORS*" IN THIS PROSPECTUS (AS DEFINED BELOW).

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under the Prospectus Directive (as defined below). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market.

Application has also been made for the Notes to be admitted to the "rated debt securities" category of the official list of the Kazakhstan Stock Exchange (the "**KASE**"). On 27 September 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which is expected to become effective on [•] 2013. No Notes may be issued, placed or listed outside of Kazakhstan without the permissions of the Committee for the Control and Supervision of the Financial Market and the Financial Organisations of the National Bank of the Republic of Kazakhstan (the "**FMSC**") for issue and placement of the Notes outside of Kazakhstan (the "**FMSC Permissions**"). The Issuer has obtained the FMSC Permissions in respect of the Notes. Simultaneously with the commencement of the placement of the Notes outside of Kazakhstan, not less than 20% of the Notes must be offered through the KASE on terms substantially similar to the offer of the Notes outside of Kazakhstan. If there is not sufficient investor interest to take up all or part of the above mentioned 20% of the Notes in Kazakhstan, then all or any remaining part of those Notes (after take-up of the Notes in Kazakhstan) may be offered and placed outside of Kazakhstan.

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES (AS SUCH TERM IS DEFINED IN REGULATION S) UNLESS REGISTERED UNDER THE SECURITIES ACT OR EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE AND OR LOCAL SECURITIES LAWS.

The Notes will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Interests in the Notes will be held in the form of a global certificate (the "**Global Certificate**"). The Global Certificate will be registered in the name of a nominee for a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV, ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in the limited circumstances as described in "*Summary of Provisions relating to the Notes while in Global Form*".

The Notes are expected to be rated [•] by Fitch Ratings Ltd. ("**Fitch**") and [•] by Moody's Investor Services Limited ("**Moody's**"). The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) № 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended, (the "**CRA Regulation**") as having been issued by Fitch and Moody's, respectively. Each of Fitch and Moody's is established in the European Union and is registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Lead Managers

Halyk Finance **UBS Investment Bank** **VTB Capital**

The date of this Prospectus is [•] 2013.

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive (as defined below), as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**"), and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes, which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in a Member State of the European Economic Area (the "**Relevant Member State**")), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or JSC Halyk Finance, UBS AG, London Branch and VTB Capital plc (collectively, the "**Managers**") or the Trustee to subscribe for or purchase any of the Notes and it should not be considered as a recommendation by the Issuer, the Managers or the Trustee that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale, subscription, purchase and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Managers and the Trustee to inform themselves about and to observe any such restrictions. None of the Issuer, the Managers or the Trustee, or any of their respective representatives, makes any representation to any recipient of this Prospectus regarding the legality of an investment in the Notes by such recipient under relevant investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of its subscription or purchase of the Notes. For a description of further restrictions on offers and sales of Notes and the distribution of this Prospectus, see "*Subscription and Sale*".

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Managers or the Trustee. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This Prospectus may only be used for the purposes for which it has been published.

To the fullest extent permitted by law, neither the Managers nor the Trustee accept any responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager, the Trustee or on behalf of a Manager or the Trustee in connection with the Issuer or the issue and offering of the Notes. Each Manager and the Trustee accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No representation or warranty, express or implied, is made by the Managers or the Trustee as to the accuracy or completeness of the information set forth in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Neither the Managers nor the Trustee assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.

NEITHER THE NOTES NOR ANY BENEFICIAL INTERESTS THEREIN HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances and is urged to consult with its own legal and financial advisers before making an investment decision. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of the Notes, UBS AG, London Branch (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. There is no assurance, however, that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Notice to United Kingdom Residents

This document is only being distributed to and is only directed at (1) persons who are outside the United Kingdom or (2) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (3) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "**Relevant Persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and certain of the expectations, assumptions and beliefs of the Group regarding such items. These statements include all matters that are not historical fact and generally, but not always, when used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions may identify forward-looking statements. These forward-looking statements are contained in the sections of this Prospectus entitled "*Risk Factors*" and "*Business*", as well as other sections of this Prospectus.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and business, as well as the development of the industry in which the Group operates, may differ significantly from those made in or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial condition and business, as well as the development of the industry in which it operates, are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Kazakhstan;
- prices for securities issued by Kazakhstan entities;
- the health of the Kazakhstan economy, including the Kazakh defence and engineering sectors;
- the effects of, and changes in, the policy of the government of Kazakhstan (the "**Government**");
- the effects of competition in geographic and business areas in which the Group conducts its operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in jurisdictions in which the Group conducts its operations;
- the Group's ability to increase market share for its goods and services, as well as its ability to control its expenses;
- unplanned events or major disruptions affecting the Group's manufacturing facilities;
- acquisitions or divestitures conducted by the Group;
- changes in technology in the sectors in which the Group operates or otherwise affecting the Group's operations and information management systems; and
- the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates.

These forward-looking statements speak only as of the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

The audited consolidated financial statements of the Group as at and for the year ended 31 December 2012, which include comparative data as at and for the year ended 31 December 2011 (the "**2012 Financial Statements**"), the audited consolidated financial statements of the Group as at and for the year ended 31 December 2011, which include comparative data as at and for the year ended 31 December 2010 (the "**2011 Financial Statements**", and, together with the 2012 Financial Statements, the "**Audited Financial Statements**") and the unaudited interim condensed consolidated financial statements of the Group as at and for the six months ended 30 June 2013, which include comparative data as at and for the six months ended 30 June 2012 (the "**Interim Financial Statements**", and, together with the Audited Financial Statements, the "**Financial Statements**"), are included elsewhere in this Prospectus.

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"), as issued by the International Accounting Standards Board. Presentation of the financial information in accordance with IFRS requires the Group's management ("**Management**") to make various estimates and assumptions, which may impact the values shown in the Financial Statements and notes thereto. The actual values may differ from such assumptions. See Notes 3 and 4 to the 2012 Financial Statements.

The Audited Financial Statements were audited, and the Interim Financial Statements were reviewed, by Deloitte LLP. See "*General Information*".

Unless otherwise indicated, all financial data pertaining to the Group presented herein is extracted or derived from the Financial Statements. The percentage change data included in "*Selected Financial and Other Information*" relates to the Tenge-denominated financial data.

This Prospectus includes non-IFRS measures and ratios, including EBIT, EBITDA and EBITDA margin. For details of how the Group calculates these measures see "*Selected Financial and Other Information—Key Financial Ratios*". EBIT, EBITDA, EBITDA margin and other non-IFRS measures should not be considered in isolation or as an alternative to results from operating activities, cash flow from operating activities or other financial measures of the Group's results of operations or liquidity derived in accordance with IFRS. The Company has included EBIT, EBITDA, EBITDA margin and other non-IFRS measures in this Prospectus because it believes that they are useful measures of the Group's performance and liquidity. Other companies, including those in the Group's industry, may calculate similarly titled financial measures differently from the Company. As not all companies calculate these financial measures in the same manner, the Company's presentation of such financial measures may not be comparable to other similarly titled measures of other companies. These non-IFRS measures are not audited.

Restatement and Other Changes to Classification and Grouping

In the course of the preparation of the 2011 Financial Statements, the Company restated certain comparative information for 2010 in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors. In addition, the Company made certain changes to the classification and grouping of comparative information for 2010 to comply with the classification and grouping used in the preparation of the 2011 Financial Statements. The 2010 information included in this Prospectus is taken from the 2011 Financial Statements and reflect such restatement and changes in classification and grouping and, accordingly, may differ from information published elsewhere. The Company believes that this restatement and these changes had no material impact on the financial position, results of operations or equity of the Group. See Note 5 to the 2011 Financial Statements and the related statements therein.

Exchange Rate History and Currencies

The Group publishes its financial statements in Tenge. The Tenge is generally not convertible outside Kazakhstan. A market exists within Kazakhstan for the conversion of Tenge into other currencies, but the limited availability of other currencies may inflate their value relative to the Tenge. No representation is made that the Tenge or U.S. Dollar amounts referred to herein could have been or could be converted into Tenge or U.S. Dollars, as the case may be, at these rates, at any particular rate or at all.

Unless otherwise specified or the context so requires, references to "**Tenge**" and "**KZT**" are to the lawful currency of Kazakhstan, references to "**dollars**", "**U.S. dollars**" and "**U.S.$**" are to the lawful currency of the United States of America and references to "**€**" or "**euro**" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended.

Solely for convenience, this Prospectus includes conversions of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any consolidated statement of financial position data in U.S. Dollars is converted from Tenge at the applicable exchange rate on the date of such consolidated statement of financial position (or, if no such rate was quoted on such date, the immediately preceding date on which such rate was quoted) and any statement of comprehensive income data in U.S. Dollars is converted from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such statement of comprehensive income data relates, in each case, calculated in accordance with the published exchange rates for U.S. Dollars on the KASE, as reported by the National Bank of Kazakhstan (the "**NBK**"). Such translations are not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at that rate or any other rate.

The following table sets forth the period-end, average and low and high rates for Tenge, each expressed in Tenge and based on the Tenge/U.S. Dollar exchange rates quoted on the KASE, as reported by the NBK for the periods indicated:

Period	**Period end**	**Average**(1)	**High**	**Low**
		(KZT/U.S.$1.00)		
Year ended 31 December 2011	148.40	146.62	148.40	145.17
Year ended 31 December 2012	150.74	149.11	150.86	147.5
Six months ended 30 June 2013	151.65	150.90	151.76	150.23

Note:

(1) The average rate reported by the NBK for the relevant period.

The Tenge/U.S. Dollar exchange rate as reported by the NBK on 7 November 2013, was KZT 153.77 per U.S.$1.00.

The above rates may differ from the actual rates used in the preparation of the Financial Statements or other financial information appearing in this Prospectus.

Rounding

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures which precede them.

Third-Party Information

Certain statistical and market information that is presented in this Prospectus has, unless otherwise stated herein, been extracted from documents and other publications released by the FMSC, the NBK and the National Statistics Agency of Kazakhstan (the "**NSA**").

The Issuer has accurately reproduced such information and, so far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Where third-party information has been used in this Prospectus, the source of such information has been identified.

Prospective investors should note that some of the Issuer's estimates are based on such third-party information. None of the Issuer or the Managers have independently verified the figures, market data or other information on which third parties have based their studies. Official data published by Kazakhstan governmental or regional agencies is substantially less complete or researched than those of more developed countries. Further, official statistics, including those produced by the FMSC, the NBK and the NSA, may be produced on different bases than those used in more developed countries. Unless otherwise stated, macroeconomic data which appear in this Prospectus have been derived from statistics published by the NSA. See "*Risk Factors—Risk Factors relating to Kazakhstan and Emerging Markets—Accuracy of Official Statistics*". Any discussion of matters relating to Kazakhstan's economy and related topics in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Definitions and References

References in this Prospectus to "local content" refer to the encouragement and promotion of the use of locally-sourced goods and services, which is aimed at increasing economic growth, profitability and employment opportunities in Kazakhstan. See "*—Business—Procurement and Contractual Framework*".

ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a joint stock company organised under the laws of Kazakhstan and all of its officers and all of its directors and certain other persons referred to in this Prospectus are residents of Kazakhstan.

All or a substantial portion of the assets of the Issuer and the Group and most of such persons are located in Kazakhstan. As a result, it may not be possible to (a) effect service of process upon the Issuer or any such person outside Kazakhstan, (b) enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions, or (c) enforce against any of them, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England.

The Notes and the Trust Deed are governed by the laws of England and the Issuer has agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London under the rules of the LCIA (the "**LCIA Rules**"). See "*Terms and Conditions of the Notes—18. Governing Law, Jurisdiction and Arbitration*". Kazakhstan's courts will likely not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") and, accordingly, an arbitral award should generally be recognised and enforceable in Kazakhstan under the New York Convention provided the conditions to enforcement set out in the New York Convention are met.

The Law on International Commercial Arbitration (the "**Arbitration Law**") was adopted by the Parliament of Kazakhstan (the "**Parliament**") on 28 December 2004. The Arbitration Law is intended to resolve uncertainty created by prior decisions of the Constitutional Council of Kazakhstan regarding enforcement of the New York Convention in Kazakhstan, which were effective 15 February 2002 and 12 April 2002 and were cancelled by the Constitutional Council in February 2008. The Arbitration Law provides clear statutory guidelines for the enforcement of arbitral awards under the conditions set forth in the New York Convention.

TABLE OF CONTENTS

OVERVIEW

Overview of the Group

This overview may not contain all the information that may be important to prospective investors of the Notes. Prospective investors of the Notes should read this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements included elsewhere in this Prospectus. Investing in the Notes involves risks. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

The Company was established under the laws of Kazakhstan on 16 April 2003 as National Company Kazakhstan Engineering Open Joint Stock Company, pursuant to Government Decree № 244 dated 13 March 2003. In May 2005, the Company was re-registered as Joint Stock Company Kazakhstan Engineering National Company in order to comply with the requirements of the Law on Joint Stock Companies of the Republic of Kazakhstan (№ 415-II) dated 13 May 2003, as amended (the "**JSC Law**"). As at the date of this Prospectus, Sovereign Wealth Fund Samruk-Kazyna JSC ("**Samruk-Kazyna**"), which is wholly owned by the Government, is the sole shareholder of the Company and the shares of the Company are managed by the Ministry of Defence of Kazakhstan (the "**Ministry of Defence**") pursuant to a trust management agreement among Samruk-Kazyna, the Committee of State Property and Privatisation of the Ministry of Finance of Kazakhstan (the "**Privatisation Committee**") and the Ministry of Defence, which was most recently amended on 27 September 2011 (the "**Trust Management Agreement**"). See "*Management and Employees—Sole Shareholder and Trust Management*". The Company's registered office is 10 Kunayev Street, Esil District, Astana, 010000, Kazakhstan, the registration number of the Company is 13659-1901-AO and the business identification number (BIN) of the Company is 030440000693. The telephone number of the Company is +7 (7172) 61 19 01.

As the Company is a holding company, the Group performs its principal business activities through its subsidiaries, associates and joint venture companies. As at the date of this Prospectus, the Company has an ownership interest in 26 subsidiaries, associates and joint venture companies, of which the Company considers nine entities to be its key subsidiaries, associates and joint ventures.

The Group is the primary vehicle for the implementation of State policy in the fields of engineering and machinery-building, in particular, for the defence industry, and is the only machinery-building holding company in Kazakhstan with the status of "national company". The Group focuses on the development, manufacturing and servicing of goods for the defence, oil and gas, railway, aviation, ship transportation, agricultural and energy and power sectors.

The Group has entered into a number of associations and joint ventures with leading international companies, such as Aselsan Elektronik Sanayi Ve Ticaret A.Ş., Eurocopter S.A.S. and OJSC KAMAZ, in order to develop new lines of goods and services and to access and develop new technology and best international practices. The Group is considering expanding its export activities and establishing operations in other jurisdictions, primarily within the Commonwealth of Independent States (the "**CIS**").

The principal activities of the Group are:

- manufacturing machinery and equipment and providing services to satisfy the needs of the defence (including Kazakhstan's emergency, security and armed forces), oil and gas, railway, aviation, ship transportation, agricultural and energy and power sectors and conducting research and development activities to develop new machinery, equipment and services for such sectors;

- exporting the machinery and equipment manufactured by the Group;

- participating in the implementation of the State's policy in the areas of, among others, industrial development, machinery production and defence and, in this connection, participating in Government and other programmes relating to the development and manufacturing of defence and dual-use goods (goods for use by the defence and civil sectors), the fulfilment of State orders for defence machinery, equipment and services and increasing and accelerating technological development in the defence industry, including through the expansion, construction and upgrading of industrial facilities;

- forming and realising plans relating to the manufacturing and storage of sufficient reserves of machinery and equipment for the purposes of the defence of Kazakhstan in the event of an emergency (such as a natural disaster); and

- conducting complex engineering services, including design works, conducting feasibility studies, purchasing equipment, managing construction, assembly and start-up projects, arranging financing for projects and training the Group's personnel.

According to Management estimates based on defence spending provided for in the Republican State budget (the "**State Budget**"), the Group serves more than 75% of the needs of Kazakhstan's armed forces, including for new equipment and the upgrading of existing equipment. Although the Group manufactures and repairs machinery and equipment for the defence sector, it does not itself develop, manufacture or fit arms or ammunitions to such machinery and equipment, although it is aware that these may be added by its customers once they take delivery of the Group's products.

For the six months ended 30 June 2013, the Group's net profit was KZT 473.2 million, as compared to net profit of KZT 601.7 million for the six months ended 30 June 2012, reflecting a decrease of KZT 128.5 million, or 21.4%, This decrease in net profit was primarily due to the difference in timing between the receipt of orders and the receipt of revenues for such orders. For the year ended 31 December 2012, the Group's net profit was KZT 4,558.5 million, as compared to KZT 2,264.1 million for the year ended 31 December 2011 and KZT 525.9 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 2,294.4 million, or 101.3%, and KZT 1,738.2 million, or 330.5%, respectively. These year-on-year increases in net profit were primarily due to the expansion of the Group's business lines, particularly in the civil sector and the completion of certain modernisation and investment projects, which, in turn, led to an increase in production.

The most significant factor affecting changes in the Group's revenues and, accordingly, net profit, from period to period is the manufacturing cycle of the Group (the "**Manufacturing Cycle**"), which, in particular, is characterised by the difference in timing between the receipt of orders and the recording of revenues. This timing differential arises principally as a result of three factors: (i) generally, orders are not consistently received throughout the course of a year, from year-to-year or from period-to-period; (ii) there is a significant time-lag between the receipt of an order and the manufacturing of the machinery or equipment to fill that order and the receipt of final payment for the manufactured goods; and (iii) monies received as advanced payments in respect of an order are not recorded as revenue, and the final payment for an order is not received and recorded as revenue, until completion and delivery of the order and revenues derived from State orders are usually recognised closer to the year-end when the acceptance acts are signed between the Company and the relevant State ministry.

This Manufacturing Cycle generally characterises operations across the Group. Accordingly, the related timing impact often results in period-to-period fluctuations, which may be significant, in the revenues and net profits of certain of the Company's subsidiaries on a stand-alone basis, and, consequently, in the revenues and net profits of the Group on a consolidated basis.

For the six months ended 30 June 2013, revenue from the production of goods for the civil sector comprised 61.0% of the Group's total revenue, revenue from the production of specialised and dual-purpose goods comprised 31.0% of the Group's total revenue and revenue from services comprised 8.0% of the Group's total revenue. For the year ended 31 December 2012, revenue from the production of goods for the civil sector comprised 27.3% of the Group's total revenue, revenue from the production of specialised and dual-purpose goods comprised 53.9% of the Group's total revenue and revenue from services comprised 18.8% of the Group's total revenue. See Note 5 to the Interim Financial Statements and Note 5 to the 2012 Financial Statements.

As at 30 June 2013, the Group had total assets of KZT 64,555.3 million, as compared to total assets of KZT 45,944.0 million as at 31 December 2012, KZT 27,408.4 million as at 31 December 2011 and KZT 24,310.8 million as at 31 December 2010. The continuously increasing size of the Group's balance sheet generally reflects the overall growth in the Group's business across the periods under review.

Overview of the Offering

*The following is an overview of the terms and conditions of the Notes. This overview is derived from, and should be read in conjunction with, the full text of the Terms and Conditions of the Notes (the "**Conditions**") and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

Issuer	Joint Stock Company Kazakhstan Engineering National Company
Issue Date	The Notes will be issued on [•] 2013.
Maturity	The Notes will mature on 20[•].
Issue Price	[•]%.
Description of Notes	US$[•],000,000 aggregate principal amount of [•]% Notes due 20[•].
Interest Rate	The Notes will bear interest at the rate of [•]% *per annum* from and including [•] 2013 to but excluding [•] 20[•].
Interest Payment Dates	Interest on the Notes will be payable semi-annually in arrear on [•] and [•] in each year, commencing on [•] 2014.
Joint Lead Managers	JSC Halyk Finance, UBS AG, London Branch and VTB Capital plc.
Trustee	Citicorp Trustee Company Limited.
Principal Paying Agent and Transfer Agent	Citibank, N.A. London Branch.
Registrar	Citigroup Global Markets Deutschland AG.
Ranking	The Notes will constitute unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.
Use of Proceeds	The net proceeds of the issue of the Notes will be used for the Issuer's general corporate purposes, which will include refinancing, retiring or otherwise restructuring existing indebtedness.
Withholding Tax	All payments of principal and interest by or on behalf of the Issuer in respect of the Notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or other governmental charges of Kazakhstan, save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. See "*Terms and Conditions of the Notes—8. Taxation*".
Tax Redemption	Upon the occurrence of certain events relating to taxation of Kazakhstan, as a result of which the Issuer becomes obligated to pay additional amounts on the Notes, the Issuer may redeem the outstanding Notes in whole (but not in part), at any time, at their principal amount plus accrued but unpaid interest to, but excluding, the redemption date. See "*Terms and Conditions of the Notes—6(b) Redemption for Taxation Reasons*".

Change of Control	Upon the occurrence of a Change of Control, as defined under "*Terms and Conditions of the Notes—6(c) Redemption at the Option of Noteholders upon a Change of Control*", the holders of the Notes will have the option to require the Issuer to redeem the Notes on the Change of Control Put Date (as defined in the Conditions) at 101% of their principal amount, together with interest accrued but unpaid to (but excluding) the Change of Control Put Date.
Permitted Restructuring Event	Upon the occurrence of a Permitted Restructuring Event, as defined under "*Terms and Conditions of the Notes—6(d) Redemption at the Option of Noteholders upon a Permitted Restructuring Event*", the holders of the Notes will have the option to require the Issuer to redeem the Notes on the Permitted Restructuring Event Put Date (as defined in the Conditions) at 101% of their principal amount, together with interest accrued but unpaid to (but excluding) the Permitted Restructuring Event Put Date.
Negative Pledge	So long as any of the Notes remain outstanding the Issuer shall not, and shall ensure that none of its Subsidiaries (as defined in "*Terms and Conditions of the Notes—19. Definitions*") shall, create, assume or permit to arise any security interest (other than Permitted Security Interest (as defined in "*Terms and Conditions of the Notes—19. Definitions*")) upon the whole or any part of their respective present or future undertakings, assets or revenue, to secure any Indebtedness for Borrowed Money or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Monday (both as defined in "*Terms and Conditions of the Notes—19. Definitions*"), unless at the same time or prior thereto the Issuer's obligations under the Notes and the Trust Deed are secured, to the satisfaction of the Trustee, equally and rateably with any such Indebtedness for Borrowed Money or any Indebtedness Guarantee or have the benefit of such other arrangements as may be approved by an Extraordinary Resolution of the Noteholders (as defined in the Conditions) or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.
Certain Covenants	The Issuer has agreed to certain covenants described in "*Terms and Conditions of the Notes—4. Negative Pledge and Covenants*".
Events of Default	If any of (i) a default is made in the payment of any principal due in respect of the Notes or any interest due in respect of the Notes for a period of five business days from the relevant Interest Payment Date in the case of interest; or (ii) if the Issuer fails to perform or comply with any of its obligations under the Notes and the failure continues for a period of thirty calendar days (or such longer period as agreed by the Trustee) following the notice requiring the failure to be remedied; or (iii) certain cross-acceleration events occur in relation to indebtedness having an aggregate amount in excess of U.S.$15,000,000 (or its equivalent); or (iv) certain other events relating, *inter alia*, to invalidity or unenforceability, insolvency or bankruptcy, enforcement proceedings, enforcement of security interest, judgements, winding-up, authorisations and consents or government intervention in relation to the Issuer or any Material Subsidiary (as defined in the Conditions) occurs as further specified in the Conditions, then the Trustee at its discretion may, and if so directed by the Noteholders shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount, together with accrued interest to the date of redemption.
Further Issues	The Issuer may, from time to time without the consent of holders of the Notes, issue additional Notes either on the same terms and conditions as the Notes, which additional Notes will be consolidated and form a single series with, the Notes offered hereby, or upon such terms as the Issuer may determine at the time of their issue.

Substitution	The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer as principal obligor under the Trust Deed and the Notes. See "*Terms and Conditions of the Notes—12. Meetings of Noteholders, Modification, Waiver and Substitution*".
Form and Denomination	The Notes will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof in the form of a Global Certificate. The Global Certificate will be registered in the name of a nominee for the Common Depositary. Ownership interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in the limited circumstances described in "*Summary of Provisions relating to the Notes while in Global Form*".
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act or any state securities laws and are subject to selling restrictions in the United States, the United Kingdom and Kazakhstan. See "*Subscription and Sale*".
FMSC Permissions	No Notes may be issued, placed or listed outside of Kazakhstan without the prior permissions of the FMSC for issue and placement of the Notes outside of Kazakhstan. The FMSC Permissions in relation to the Notes were granted on 4 October 2013.
Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC. In addition, the Issuer has made an application to the KASE for the Notes to be admitted to the "rated debt securities" category of the official list of the KASE. On 27 September 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which is expected to become effective on [•] 2013.
Rating	The Notes are expected to be rated [•] by Fitch and [•] by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Trust Deed and the Paying Agency Agreement, and any non-contractual obligations arising out of or in connection therewith, will be governed by, and construed in accordance with, English law.
Risk Factors	Before making an investment decision, prospective purchasers of Notes should consider carefully all of the information included in this Prospectus, including, in particular, the information under "*Risk Factors*" in this Prospectus.
ISIN and Common Code	The ISIN and Common Code of the Notes are as follows: ISIN: [•] Common Code: [•]

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Group is subject to (i) risks relating to its business and the industry in which it operates, including, but not limited to, changes to Government policy and Government support, supplier and customer risks, operational risks and risks associated with modernisation, investment and expansion projects, (ii) Kazakhstan specific risks, including, but not limited to, local currency devaluation, civil disturbances, changes in exchange controls or lack of availability of hard currency, changes in energy prices, changes with respect to taxes, withholding taxes on distributions to foreign investors, changes in anti-monopoly legislation, nationalisation or expropriation of property, and (iii) risks relating to the structure and terms of the Notes, as well as the market, more generally.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk Factors relating to the Group's Business

State Control

The Company's sole shareholder is Samruk-Kazyna, which is, in turn, wholly owned by the Government. The shares of the Company are managed by the Ministry of Defence pursuant to the Trust Management Agreement.

The Group is the primary vehicle for the Government for purposes of implementing State policy in engineering and machinery-building and the Group's business is focused on a number of key activities, including manufacturing goods and providing services for the defence industry and promoting productivity and economic growth more generally through industrialisation and diversification. The interests of the Government may conflict with the interests of the Company's creditors and there can be no assurance that the Government will exercise influence over the Group in a manner that is in the best interests of the Group or the Noteholders.

Furthermore, there can be no assurance that the Government will not change its policies in respect of the Group or the Kazakhstan engineering and machinery-building sectors or any other sectors in which the Group operates. There is also a risk that any change of Government may result in changes to governmental policies, which may lead to conflicts between such policies and the interests of the Group and the Noteholders. Any change in Government may also result in changes to the Company's Board of Directors (the "**Company's Board of Directors**") and members of Management, which could, in turn, cause disruption in the management and operation of the Group's business and affairs and have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, being controlled by the Government may subject the Group to bureaucratic inefficiencies commonly attributed to State-controlled companies and, accordingly, slow the Group's decision-making processes. Any such conflict, changes or inefficiencies could have a material adverse effect on the Group's current strategies and management and on the Group's ability to operate on a commercial basis, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

State Support

The Group currently benefits from State support, in the form of concessional rate loans from Samruk-Kazyna and contributions from the State Budget, as well as additional budgeted capital contributions from its shareholder (Samruk-Kazyna), all of which are subject to Government approval and any or all of which could be discontinued or reduced. For example, in 2010, the Company received a KZT 4,700 million capital contribution (including cash and assets) from Samruk-Kazyna, comprising amounts from the State Budget, to support the development of a helicopter manufacturing joint venture with Eurocopter S.A.S. and, in 2012 and 2013, the Group received concessional rate loans from Samruk-Kazyna in an aggregate amount of KZT 9,700 million to support working capital, expand the Group's sales to the civil sector, modernise facilities and conduct its planned investment projects. The Group also receives Government grants for certain research and development activities and subsidies for certain investment projects, which are also subject to Government approval. The amount and the terms of the concessional rate loans to be made available to the Group and the amount of any additional capital contributions to the Company are determined annually by the Government and included in the State Budget and are dependent on the condition of the State's finances and fiscal policies. In addition, for goods and services produced for the defence sector, the Ministry of Defence and other ministries and state agencies typically provide significant prepayments in respect of goods and services purchased from the Group and the Group is not required to tender for such orders.

There can be no assurance that the State will continue to offer funding or other types of support to the Company at the same levels or on the same terms as it has historically or at all. Any cancellation, limitation or reduction in State support mechanisms, or any adverse modification in the terms thereof, could have a material adverse effect on the Group's business, results of operations and financial condition.

Access to Third-Party Funding

In addition to concessional rate loans from Samruk-Kazyna, contributions from the State Budget and other support from Samruk-Kazyna and the Government, the Group receives funding from the capital markets and from banks and other financial institutions. Between December 2012 and April 2013, the Company issued an aggregate principal amount of KZT 14,849 million in Tenge-denominated bonds, which are listed on the KASE and mature in November 2015. As at 30 June 2013, bonds issued by the Company accounted for 32.8% of the Group's total liabilities. In addition, as at 30 June 2013, 31 December 2012, 31 December 2011 and 31 December 2010, financing from banks and other financial institutions (including finance leases) represented 19.8%, 34.0%, 35.0% and 26.5%, respectively, of the Group's total liabilities.

A number of factors, many of which are outside the Group's control, may affect the Group's ability to obtain funding from banks or other financial institutions or to access the international or domestic capital markets in the future, including, *inter alia*, the condition of the Kazakhstan and international banking sectors, the condition of the international or domestic capital markets, capital controls that are or may be imposed globally or locally, the willingness of multilateral institutions to fund specific projects and the actual and perceived economic conditions in Kazakhstan, in addition to the Group's financial condition.

There can be no assurance that the Group will be able to continue to satisfy a part (or all, if State support is reduced or modified) of its funding requirements through amounts provided by banks and other financial institutions or through issuances of debt securities. There can also be no assurance that Samruk-Kazyna or the Government will provide adequate support through concessional rate loans, capital contributions or otherwise should such alternative funding methods not be available. To the extent that banks and other financial institutions are unwilling or unable to continue to provide sufficient funding to the Group, or the Group is not able to raise such financing through the issuance of debt securities or increased funding from Samruk-Kazyna or the Government, the Group may not be able to access alternative sources of funding to compensate for any shortfall in funds. Any reduction in the amount of such funding provided to the Group could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, the terms on which banks and other financial institutions provide funding or any other commercial funding sources will likely be less favourable to the Group than the terms of the contributions and concessional-rate loans it currently receives from Samruk-Kazyna and the State Budget. Additional costs associated with the Group increasing its exposure to more expensive external, independent sources of funding may result in the Group experiencing lower profit margins, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Defence Sector Development Mandate

The Group's business and strategy are generally driven by the defence development goals and policies of the Government rather than purely commercial considerations and the Group serves more than 75% of the needs of Kazakhstan's armed forces, including for new equipment and the upgrading of existing equipment, according to Management estimates. A substantial majority of the Group's revenues are derived from sales to the defence industry. In addition, the Group participates in a number of Government programmes, including with respect to the development of the machinery-building industry, which set certain goals for the Group. Such goals and policies may not necessarily be in the best interests of the Group or the Noteholders. While business conducted by the Group is generally evaluated and approved based upon its profitability, the development of new goods and services, as well as certain joint ventures entered into by the Group, is driven, to a large extent, upon the needs of the Ministry of Defence and the Kazakhstan armed forces and other ministries and agencies, rather than the generation of revenues and profits. To the extent that conflicts arise between the Government's goals and policies and the Group's commercial interests, the Group's mandate to support the development of the defence sector and to comply with other State policies could have a material adverse effect on the Group's business, results of operations and financial condition.

Dividend Payments

Pursuant to the Company's dividend policy implemented by Samruk-Kazyna each year, the Company is required to pay at least 15% of its annual consolidated net profit as dividends to Samruk-Kazyna, in its capacity as sole shareholder.

The payment of dividends by the Company to Samruk-Kazyna may result in the Company having less available cash to make investments in companies within the Group, which could lead to increased manufacturing costs and accidents, as well as delays, reductions or modifications to the Group's modernisation projects, expansion activities or competitiveness, any of which could have a material adverse effect on the Group's business, results of operations and financial condition.

Limited Number of Customers

Most of the Group's goods and services are sold to a limited number of customers, in particular, other entities within the Samruk-Kazyna group, as well as State ministries and authorities of Kazakhstan. For the year ended 31 December 2012, revenue from sales to related parties accounted for 82.9% of the Group's total revenue and a number of Group companies, including JSC Semey Engineering ("**Semey Engineering**"), only sell goods to State ministries and agencies. There can be no assurance that these customers will continue to purchase the Group's goods or services at current levels or that the Group will be able to decrease its dependence on these customers in the future. In addition, to the extent related party sales decrease, there can be no assurance that the Group will be able to conclude contracts with unrelated parties on as favourable terms as its sales to related parties.

As noted, the Group generates a significant percentage of its revenue from sales of goods and services to companies within the Samruk-Kazyna group. As a member of the Samruk-Kazyna group, the Group benefits from an exemption to standard procurement rules when it enters into contracts with other members of the Samruk-Kazyna group, which provides an incentive for such entities to procure goods and services from the Group. Any change to such exemptions could result in a reduction in sales to these customers. Orders from the Group's customers within the Samruk-Kazyna group could also be affected by factors such as work stoppages, acts of god or a reduction in demand for the services of goods supplied by such customers, any of which could lead to a reduction in new orders for the Group.

The Group also generates a large percentage of its revenue from sales of goods and services to State ministries and authorities, in particular, the Ministry of Defence and the Ministry of Emergency Situations of Kazakhstan (the "**Ministry of Emergency Situations**"). Defence spending is dependent upon a number of factors, including political, economic and security factors prevailing within the country and the surrounding region, which factors may fluctuate from year-to-year. A decrease in the level of expenditure allocated in the State Budget for defence spending could result in a reduction in new orders for the Group, delays in the completion of existing orders or delays or reductions in payments for completed orders, as well as a decrease in financing for research and development programmes. There is a limited market for the defence industry goods and services provided by the Group if orders from State ministries and authorities are decreased.

In addition, while revenues received from sales of goods and services to State ministries and authorities and other members of the Samruk-Kazyna group are generally stable and predictable, revenues from commercial sources are generally more cyclical. Accordingly, any reduction in the level of sales to State ministries and authorities and other members of the Samruk-Kazyna group resulting in the need to source sufficient revenues from commercial sources could destabilise the predictability of the Group's revenue, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Any reduction in sales to the Group's customers, including as a result of decreases in orders from entities within the Samruk-Kazyna group and State ministries and authorities, or any failure of the Group to locate alternative market participants with which to trade at acceptable prices, could materially adversely affect the Group's revenues, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Supplier Risk

The Group relies on third parties to supply spare parts, components and raw materials for its production processes, as well as to perform certain maintenance and repair work and delivery services required for the conduct of its businesses. If any of the Group's principal suppliers were to experience business interruptions or become insolvent, or if the Group were unable to renew contracts with its suppliers on commercially reasonable terms, or at all, the Group could find it difficult to replace its suppliers in a timely fashion, if at all. Moreover, in the event that either the Group's demand increases or its suppliers experience a scarcity of resources, the Group's suppliers may be unable to meet the Group's needs for spare parts, components and raw materials, as well as maintenance and repair work and delivery services. There can be no assurance that the Group will be able to locate additional or replacement suppliers to cover any shortfall.

In addition, the Group is required to follow more stringent procurement rules and procedures with respect to suppliers and customers outside the Samruk-Kazyna group. Any failure to conclude the necessary relationships with suppliers could have a material adverse effect on the Group's business, results of operations and financial condition.

Production Costs and Prices of Raw Materials and Spare Parts

For the six months ended 30 June 2013, raw materials and spare parts accounted for 74.1% of the Group's total production costs. Raw materials and spare parts accounted for 74.6% and 75.2% of the Group's total production costs for the years ended 31 December 2012 and 2011, respectively. The Group's production costs, including the costs relating to raw materials and spare parts, could all increase.

The principal raw materials and spare parts that the Group requires for its manufacturing activities are metals, such as aluminium and steel, and spare parts for use in oil and gas pumps. In order to ensure timely delivery of goods to the Group's customers at competitive prices, the Group must obtain sufficient quantities of good quality raw materials and spare parts at acceptable prices and in a timely manner. There is no assurance that it will be able to continue to do so.

The availability and prices of raw materials and spare parts may be negatively affected by, among other factors, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, accidents or other similar events at suppliers' premises or along the supply chain, wars, natural disasters and other similar events, changes in exchange rates, the bargaining power of suppliers and the availability and cost of transportation in relation to the raw materials and spare parts. International political and economic circumstances may also affect prices for and the supply of raw materials and spare parts. In particular, any supply shortage could result in higher prices for raw materials and spare parts required by the Group.

Any prolonged interruption in the supply of raw materials and spare parts could adversely affect the Group's business, financial condition and results of operations.

As at the date of this Prospectus, the Group does not enter into any hedging arrangements to protect against commodity price risk. If the prices at which the Group purchases its raw materials, spare parts and other commodities increase, then Group's cost of sales would increase accordingly and the Group may be unable to pass on these cost increases to its customers. Any significant increase in production costs could have a material adverse effect on the Group's business, results of operations and financial condition.

Holding Company Structure and Structural Subordination

The Company is a holding company and conducts the vast majority of its operations through its subsidiaries, associates and joint ventures. The Company holds no significant assets other than shares of its subsidiaries, interests in its associates and joint ventures and shareholder loans to its subsidiaries and it is therefore dependent upon the receipt of interest income on intercompany loans, management commissions from its subsidiaries and dividends from its subsidiaries, associates and joint ventures to meet its obligations. Although the Group's current policy is to restrict subsidiaries from incurring indebtedness directly and the majority of the Group's debt is held at the level of the Company, there can be no assurance that this policy will not change in the future. Noteholders will be structurally subordinated to the creditors of the Company's subsidiaries, in that the Company's ability to benefit from the distribution of any assets upon the liquidation of any of its subsidiaries will be subject to the prior claims of that subsidiary's direct creditors. A decrease in dividend or interest income from the Company's subsidiaries or the insolvency or liquidation of one or more of the Company's subsidiaries could have a material adverse effect on the Group's business, results of operations and financial condition.

Associate and Joint Venture Projects

The Company, either directly or through other members of the Group, participates in several associates and joint ventures and intends in the future to enter into additional joint ventures as a means of conducting its business. The Group holds a 50% or less interest in the majority of its associates and joint ventures and is likely to hold such non-controlling stakes in future entities as well. While it has a considerable degree of influence over many of its associates and joint ventures, including certain key management positions, the Company does not solely control the operations, assets or decision-making processes of associates and joint ventures where it holds an interest of 50% or less. This lack of exclusive control may constrain the Company's ability to cause such entities to take action that would be in the best interests of the Group or refrain from taking actions that would be adverse to the interests of the Group and may result in operational or production inefficiencies or delays, which could, in turn, have a material adverse effect on the profits realised by the Group from the manufacturing and development operations of its associates and joint ventures.

When evaluating potential joint venture opportunities, the Group makes certain judgments regarding the value of business opportunities, technologies and other assets, as well as the risks and potential liabilities apparent at the time of the transaction. Whether the anticipated benefits from these transactions are realised by the Group depends on multiple factors, including the integration of the new businesses with the Group's existing businesses, the degree to which the associate or joint venture is successful in meeting its business plan, the extent of any assumed liabilities and the capabilities and technologies in place or required to be developed or acquired and market conditions following the acquisition.

Any failure to realise the anticipated benefits of associate or joint venture opportunities or any adverse developments affecting any of the foregoing factors could have a material adverse effect on the Group's business, results of operations and financial condition.

Insurance

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Moreover, to the extent insurance may be available to the Group outside of Kazakhstan, it may not be cost effective. Accordingly, similar to many other State-owned enterprises in Kazakhstan, the Group maintains limited insurance coverage. While the Group believes that its levels of insurance are adequate for its business and industry, if one or more major events were to affect one or more of the Group's facilities, the Group could experience substantial property loss and business interruption, for which the Group may not be adequately insured. Depending on the severity of the event or events, a portion of the Group's costs in excess of its insured limits may not be covered by its insurance policies, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Potential Liabilities From Damage To Equipment and Injury

Any uninsured liabilities resulting from the Group's operations may adversely affect its business, results of operations and financial condition. Due to the nature of the Group's operations, its employees or third parties may be involved in accidents on its premises. These accidents may occur as a result of, *inter alia*, fire, explosions or industrial accidents, which may, in turn, result in injury or death, as well as damage to the Group's machinery and equipment.

Any damage to, or destruction of, property or equipment, personal injury or loss of life, suspension of manufacturing operations or environmental damage could result in the interruption of the Group's business or significant liability for the Group, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Modernisation and Maintenance of Equipment

The Group's fixed assets, including its manufacturing facilities and the equipment installed therein, have generally not been sufficiently maintained, upgraded or modernised since the dissolution of the Soviet Union in the early 1990s. Certain of the Group's equipment is approaching the end of its useful life of 20 years, while certain of the Group's power units have exceeded their useful life. The Group estimates that approximately 60% of its plants and equipment require modernisation or, at least, significant maintenance.

The Group is required to maintain its machinery and equipment to certain standards for its operations. The Group has made and intends to continue to make substantial investments to modernise, maintain and develop its facilities. Such modernisation and maintenance may involve substantial costs and there can be no assurance that the Group will be able to obtain the necessary funding for these projects or otherwise to complete its intended maintenance programmes.

The Group's operations are dependent on the operating efficiency and reliability of its machinery and equipment in terms of operational worthiness and safety. Ageing facilities generally have lower operating efficiencies and reliability than newer facilities and require more costly and more frequent maintenance and improvement works. Such facilities may also be particularly susceptible to technical failures and emergencies, which may require the replacement or repair of key components, the procurement of which may involve long lead times and the incurrence of significant expenses. Any unexpected breakdown or non-performance of the Group's machinery and equipment is difficult to predict and, in the event of downtime, additional costs and losses, including loss of revenue, may be incurred by the Group, which it likely cannot pass on to its customers. In the event such breakdown, non-performance or downtime, the Group may also be unable to meet its contractual obligations with its customers, which, in turn, could lead to the Group becoming obligated to pay penalties.

Any of the foregoing could have a material adverse effect on the Group's reputation, as well as on its business, results of operations and financial condition.

Investment and Modernisation Projects

The Group has launched a number of investment projects relating to the development of goods and services for the defence sector. A number of companies within the Group are also implementing investment projects to maintain and modernise ageing manufacturing facilities. Each of these projects requires substantial capital expenditures and investment.

Implementation of such investment projects involves many potential risks and uncertainties, including work stoppages and interruptions at the Group's current facilities, inclement weather and unforeseen engineering or construction difficulties. Any of these developments could cause delays and cost increases or result in the Group's desired or anticipated results not being achieved.

In addition, modernisation and investment projects are capital-intensive and may be possible only in favourable market conditions or with the support of the Government. In particular, if the Group is not able to finance such projects from its operating cash flows, it may need to seek further financing from the capital markets, through bilateral or syndicated loans or from Samruk-Kazyna or the Government, through further capital contributions or otherwise. There can be no assurance that the Group will be able to obtain necessary financing in sufficient amounts and on acceptable terms. During the recent economic downturn through 2009, the Group was required to substantially reduce its capital expenditures, as it could no longer fully-fund investments from operating cash flows or other sources. Since that time, due to Governmental support and the Group's financial and economic policy, the amount of investments in the renewal and modernisation of fixed assets and the development of new investment projects has significantly increased. For the year ended 31 December 2012, the amount of capital expenditures for investment projects, including projects to upgrade the Group's fixed assets was KZT 6.4 billion, as compared to KZT 2.6 billion for the year ended 31 December 2011. For the six months ended 30 June 2013, the Group's capital expenditure was KZT 1.1 billion, as compared to KZT 1.7 billion for the six months ended 30 June 2012. There can be no assurance that the Group will be able to continue to obtain, from the Government or other sources, financial support sufficient to continue its investment and modernisation objectives.

An inability to finance planned investment projects at an acceptable cost or to implement its capital investment programme for any other reason could have a material adverse effect on the Group's business, results of operations and financial condition.

Development of New Products

The continued success of the Group depends, in part, on its ability to develop new products and innovative technologies. Many of the goods and services provided by the Group involve sophisticated technologies and engineering, with related complex manufacturing and system integration processes. In addition, the needs and requirements of the Group's customers change and evolve on a regular basis. Accordingly, the Group is required to continue to develop, manufacture and provide innovative goods and services on a timely basis and at cost-effective prices. Any failure of the Group to develop new products that meet these changing customer needs could have a material adverse effect on the Group's business, results of operations and financial condition.

Shortage of Qualified Personnel

There is a considerable shortage of adequately qualified personnel in Kazakhstan, particularly in such areas as product design and development, complex engineering and risk management. If the shortage of adequately qualified personnel persists, the Group's ability to offer the desired range and volume of goods and services, to expand its business and to maintain the quality of its assets may be affected. In addition, labour costs in Kazakhstan have historically been lower than labour costs in more developed countries. If wages and related costs were to increase in Kazakhstan, the Group's profitability could be reduced. The Group may need to increase the level of employees' compensation at a higher rate than it has done in the past, or offer additional financial and other incentives, in order to remain competitive, retain its existing personnel and recruit additional personnel and this, in turn, could increase the Group's expenses.

A failure to successfully manage its personnel needs and its personnel-related costs may have a material adverse effect on the Group's business, results of operations and financial condition.

Internal Reorganisations

In accordance with the Group's development strategy, and the principles set forth in the Government programmes in which the Group participates, which requires focus on the Group's core activities, the Group is considering reorganising certain aspects of its corporate structure in order, *inter alia*, to improve operational efficiency and achieve cost savings. In 2011 and 2012, the Group disposed of its significant interests in a number of non-core businesses, including Kazakhstan Engineering Distribution LLP, Kuzet LLP (now SpecMash Astana LLP, although the registration formalities for this disposal were not completed until August 2013) and Aviasnap LLP. The Group may dispose of its controlling, or entire interest, in other non-core businesses in the future.

Such reorganisation may require the use of significant internal resources and attention from Management, both of which could otherwise be deployed on other matters and projects. There can be no assurance that any future reorganisation, if implemented, will be successful at improving efficiency or achieving savings or will not face other barriers to completion that the Group has not yet anticipated. Failure to successfully implement any such reorganisation may materially adversely affect the Group's business, results of operations and financial condition. Separately, any material change to the Group's structure or the disposal of its assets could have a material adverse effect on the Group's business, results of operations and financial condition.

Expansion Plans

As at the date of this Prospectus, more than 80% of the Group's sales to external customers are to customers in Kazakhstan. In accordance with the Group's Development Strategy (as defined below), the Group plans to become one of the leading engineering services providers in the Russian Federation ("**Russia**") and Central Asia and to develop a presence in the Middle East, Africa and South-East Asia by 2020. The Group also plans to develop a new engineering line of business and may continue to expand its current production and storage and expansion of its core business manufacturing capabilities through acquisitions, associates or joint ventures.

Any future acquisitions and other investments that the Group makes, including through existing or future associates and joint ventures, expose the Group to additional business and operating risks and uncertainties. The Group's expansion plans will require substantial financial and management resources and the success of the plans depends on many factors, some of which are not within the Group's control. Any failure to successfully implement its expansion plans may result in the incurrence of unrecoverable costs, which could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, as the Group expands its export activities, it will become increasingly subject to changes in the social, economic, political and regulatory conditions in the countries in which its customers are based. Factors such as fluctuations in exchange rates, economic recession, inflation, changes in government or regulatory policies, changes in labour policies and environmental policies and implementation of trade and non-trade barriers may affect the Group's sales to international customers and could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Licences and Permits

The Group conducts its business operations under various licences and permits, which authorise it to (i) carry out a full range of business activities and authorise activities in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of equipment and spare parts and (ii) perform expert works and engineering services, in each case, to fulfil State defence orders or other State orders. The Group's activities are dependent upon the continuance in force of these licences and permits, which in certain circumstances may be subject to limitations and may provide for withdrawal. Although the Group's licences are generally of a perpetual duration, the licences are subject to revocation for non-compliance or due to a change in law. Accordingly, there can be no assurance that such licences and permits will continue in force indefinitely or without modification or that the Group will not be required to obtain additional licences or permits in the future. In any such event, such licences or permits may not be easily obtained on acceptable terms, if at all. Any failure to obtain any necessary licences or permits or any suspension or termination of an existing licence or permit could have a material adverse effect on the Group's business, results of operations and financial condition.

Environmental Laws and Regulations

The Group's operations are subject to applicable national and local laws and regulations on environmental protection, including rules relating to emissions. In carrying out its environmental policies, the Group seeks to adhere to international standards. Compliance with environmental regulations is an ongoing process and, as such, new laws and regulations, the imposition of more stringent requirements, increasingly strict enforcement or new interpretations of existing environmental laws may require the Group to modify its operations, incur substantial unbudgeted costs to comply with current or future regulations or may cause the Group to incur fines or penalties for environmental violations, any of which could have a material adverse effect on the Group's business, results of operations and financial condition.

Competition

A number of sectors in which the Group operates, in particular, machinery-building for the aviation and defence sectors, are high-technology sectors involving high levels of capital expenditures and substantial barriers to entry. While, as a result, the Group generally faces little or no competition from Kazakhstan-based machinery-building companies in respect of the majority of its goods and services and benefits from exclusivity with respect to State defence orders for goods and services, the Group may be subject to significant competition from foreign producers whose products are imported into the Kazakhstan market, as well as in connection with the Group's efforts to expand its export operations. Competition from Russian producers in the Kazakhstan market may also increase as a result of further customs exemptions expected to be implemented in connection with the Russia-Kazakhstan-Belarus Customs Union (the "**Customs Union**").

Private customers often make purchasing decisions principally on the basis of delivered price and, to a lesser extent, on customer service and product quality. The Group competes with a number of foreign producers outside of Kazakhstan, as well as certain foreign producers whose products are imported into the Kazakhstan market, including certain producers that benefit from governmental support as state-owned or government-subsidised entities. As at the date of this Prospectus, the Group is relatively small in size in comparison to a number of machinery-building and engineering companies. The Group's limited size could affect its ability to compete in its target export markets. Some of the Group's competitors may have competitive advantages similar to, or even superior to, those of the Group, such as control over, or access to, a low-cost raw materials base, access to low-cost credit, locations close to major suppliers or customers, good market reputation and long-standing trade relationships with global market participants. Any failure of the Group to compete successfully could result in the loss of customers, an inability to attract new customers or an inability to expand successfully the Group's export operations, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Operational Risks

The Group is exposed to operational risks resulting from system failures, human error, fraud or external events. When controls fail to perform, operational risks may cause damage to reputation, have legal or regulatory implications or lead to financial loss.

To manufacture its goods and provide its services across its various businesses, the Group depends on certain critical items of machinery and equipment, particularly in relation to the assembly of goods, as well as vehicles. Items of machinery and equipment and vehicles within the Group's fleet may, on occasion, be out of service as a result of unanticipated failures. In addition, the Group depends on various information technology systems to run the handling arm of its manufacturing business, monitor its operations and verify the quality of its products prior to delivery to customers. A failure of all or some of these systems could impact the Group's operations. Any interruptions in the availability of the Group's machinery or equipment or vehicle breakdowns or failures may result in delays to deliveries to the Group's customers and require the Group to incur significant expenses to remedy the situation, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, any failure to meet the expectations of the Group's customers could damage the Group's reputation and lead to claims from customers and related losses of business, which could, in turn, adversely affect the Group's ability to attract new customers and have a material adverse effect on the Group's business, results of operations and financial condition.

Information Systems Risk

The Group relies on information systems to conduct its business. Any failure or interruption in, or breach in the security of, these systems could result in failures or interruptions in the Group's automated manufacturing processes, risk management or errors in its accounting books and records. The Company's subsidiaries do not currently have any separate disaster recovery systems and certain of its current information technology systems are relatively outdated. In addition, the Group does not have an off-site data back-up system for data protection. If the Group's information systems failed, in whole or in any material part, the Group would experience delays in its manufacturing or servicing processes. Likewise, a temporary shutdown of the Group's information systems may result in the Group incurring costs associated with information retrieval and verification. In addition, the Group's systems may be subject to internet attacks and the Group's systems could prove inadequate to protect against such future attacks.

There can be no assurance that such failures, interruptions or attacks will not occur. The occurrence of any failures or interruptions in the Group's systems, or any failure to implement properly any systems or protect the security of such systems, could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, the Group is implementing a project to centralise and upgrade its information technology and information management systems. There can be no assurance that this project will be implemented on time or within budget, if at all. An inability to finance the project at an acceptable cost or to complete the project for any other reason could have a material adverse effect on the Group's business, results of operations and financial condition.

Financial Reporting Processes

The Group's information management systems, financial reporting functions and internal control systems generally and, in particular, relating to the preparation of IFRS financial statements are less developed in certain respects, and may not provide management with as detailed or as accurate information, as those of similar companies in more developed markets. The Group's independent auditors have reported certain deficiencies in these respects. Specifically, the auditors have made recommendations for improvements in the Group's internal control and accounting systems, procedures for information gathering, analysis and reporting and financial statement processes. While management has historically been responsive to such recommendations, the lack of implementation of Group-wide automated accounting and reporting systems and the more limited management accounts that are available as a result of such deficiencies may make the Group's financial information less reliable than that of companies that have implemented these systems. These shortcomings could adversely impact the quality of decision-making by Management due to delays in producing complete management accounts on a basis consistent with IFRS. The preparation of annual or interim IFRS consolidated financial statements may require more time for the Group than it does for companies with more developed systems. If for any reason the Group failed to maintain adequate information management systems, financial reporting functions or internal control systems, or experienced delays in preparing IFRS consolidated financial statements, this could have a material adverse effect on the Group's business, results of operations and financial condition.

Management believes, however, that the Group's financial reporting processes are sufficient to permit the Company to comply with its ongoing obligations as a company whose Notes are listed on the KASE and the Main Securities Market of the Irish Stock Exchange.

Liquidity Risk

Liquidity is a measure of the Group's ability to generate adequate amounts of cash to meet both current and future obligations as they mature and to provide for planned capital expenditures.

The Group's cash requirements for operations and capital expenditures are significant and the Group's sources of cash include revenue primarily from the sales of goods and services, concessional rate loans from Samruk-Kazyna, contributions from the State Budget and other funding from Samruk-Kazyna and the Government, as well as proceeds from debt issuances. If the Kazakhstan economy was to contract and revenue of the Group were to decrease, the Group may be unable to meet its working capital requirements or fund its planned capital expenditures, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Foreign Exchange Risk

The Group's reporting currency is the Tenge. The Group enters into certain contracts with its suppliers in currencies other than the Tenge, such as the Russian Rouble and the U.S. Dollar. In addition, following the issuance of the Notes, approximately 90% of the Group's debt is expected to be denominated in U.S. Dollars, while approximately 90% of the Group's revenues are denominated in Tenge. Accordingly, the Group is, and increasingly will be, subject to variations in the rates of exchange between such currencies and the Tenge, which could have a material adverse effect on the Group's business, results of operations and financial condition.

As at the date of this Prospectus, the Group does not enter into hedging arrangements to protect against foreign currency exchange rate risks, although it may do so following the issuance of the Notes. If the Tenge were to experience a significant devaluation relative to the U.S. Dollar, the Russian Rouble or other currencies in which the Group conducts business or incurs liabilities, it could have a material adverse effect on the Group's business, results of operations and financial condition.

Labour Disruptions

Approximately 58% of the Group's employees are members of the Public Association "Union of Machine Building Workers of the Republic of Kazakhstan" (the "**Machine Building Trade Union**"). Although Management believes that the Group's present labour relations are generally good, and the Group has not experienced any labour disputes since the incorporation of the Company in 2003, there can be no assurance that a work slowdown, a work stoppage or a strike will not occur. Work slowdowns, stoppages or other labour-related developments could have a material adverse effect on the Group's business, results of operations and financial condition.

Risk Factors relating to Kazakhstan and Emerging Markets

Emerging Markets Risks

The disruptions experienced in recent years due to the impact of the global financial and economic crisis in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions, reductions in the availability of credit and increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular those in the CIS or Central Asian regions which have recently experienced significant political instability (including terrorism), could seriously disrupt the Group's business, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Economic and Political Conditions Prevailing in Kazakhstan

Nearly all of the Group's operations are conducted, and nearly all of its assets are located, in Kazakhstan; therefore, the Group is heavily dependent on the economic and political conditions prevailing in Kazakhstan. Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan, under President Nursultan Nazarbayev, has experienced significant changes as it emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy and high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises, liberalisation of capital controls, tax reforms and pension system development and it is more advanced in this respect than some other countries of the former Soviet Union. Kazakhstan has continued to move towards a market-oriented economy and was awarded the chairmanship of the Organisation for Security and Co-operation in Europe for the calendar year 2010. If the current administration changes its policies or, in the event of a change in administration, such future administration has different policies, the economy in Kazakhstan could be adversely affected. Changes in governmental policy could therefore have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, despite the changes in the political, legal and economic environment in Kazakhstan since its independence, there have been allegations that Government officials have engaged in selective investigations and prosecutions of businesses and their management, boards of directors and shareholders in order to further pursue the interests of the Government, certain Government officials or other business groups. These allegations of corruption in Kazakhstan, could negatively impact the business climate in Kazakhstan and customers' willingness to do business in Kazakhstan, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including aluminium, coal, copper, ferro-alloys, iron ore, lead, natural gas, oil, steel, wheat and zinc. Thus, Kazakhstan is dependent upon good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy. Moreover, adverse economic factors in regional markets may also adversely impact the economy.

In addition, Kazakhstan could be adversely affected by political unrest in the region, such as that experienced by the neighbouring country of Kyrgyzstan in 2010. Additionally, like other countries in Central Asia, Kazakhstan could be adversely affected by terrorism or military or other action taken against sponsors of terrorism in the region. Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence.

Kazakhstan has had only one president, Nursultan Nazarbayev, who is 73 years old. Under President Nazarbayev's leadership, the foundations of a market economy have been laid down as described above and the country has been largely free from political violence. In 2007, Kazakhstan's Parliament amended Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of consecutive re-elections. The 2007 amendment permitted President Nazarbayev to seek re-election at the end of his term in 2011 and, in April 2011, he was re-elected with 95.5% of the vote for a new five-year term.

Given that Kazakhstan has not had a presidential succession and that there is no clear successor to Mr. Nazarbayev, the issue is a potential cause of instability and there can be no assurance that any succession will result in a smooth transfer of office and a continuation of current economic policies. Thus, should he fail to complete his current term of office for whatever reason or should a new president be elected at the next election, Kazakhstan's political and economic environment could become unstable, particularly if such successor has a different political outlook or agenda, and the investment climate in Kazakhstan could deteriorate, which could have a material adverse effect on the Group's business, results of operations and financial condition.

According to NSA data, real gross domestic product ("**GDP**") growth slowed to 1.2% in 2009. In 2010, however, GDP began to recover, growing in real terms by 7.3% and by 7.5% in 2011, 5.0% in 2012 and 5.1% in the six months ended 30 June 2013. These data demonstrate signs of economic recovery, although there can be no assurance that growth will continue indefinitely.

Impact of External Factors on Kazakhstan's Economy

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, S&P downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while Moody's downgraded the bank financial strength ratings of six banks. At the time, the rating agencies stated that these downgrades were the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy and its financial institutions and specifically mounting asset quality and liquidity problems and the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the devaluation of the Tenge in February 2009. Several commercial banks in Kazakhstan experienced difficulty in refinancing maturing international debt and, as a result, sought short-term funding from the NBK and substantially limited their issuances of new loans. Pursuant to the terms of financial stability legislation adopted by the Government in February 2009, two of Kazakhstan's largest banks, JSC BTA Bank ("**BTA Bank**") and JSC Alliance Bank ("**Alliance Bank**"), were effectively nationalised by the Government in the wake of the new fiscal stability legislation. BTA Bank completed its first restructuring on 31 August 2010, whilst Alliance Bank completed its restructuring in April 2010. In January 2012, BTA Bank failed to make an interest payment due to the holders of senior notes issued as part of the restructuring it completed in 2010 and subsequently agreed terms for a second restructuring completed in 2012. The restructured banks are still in the relatively early stages of their post-restructuring operations, however, and there can be no assurance that the restructuring efforts in respect of the Kazakhstan financial sector will ultimately be wholly successful and it is not clear what impact the crisis and the subsequent restructurings will ultimately have on the prospects of Kazakhstan's banks and their customers, including the Group. The housing and construction industries and small and medium sized enterprises have been particularly affected while larger companies, subsoil use companies and State-owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favourable terms.

Kazakhstan has maintained a stable credit rating since April 2010. Any downgrade, however, is likely to result in a downgrade of the Issuer's ratings. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could, in turn, materially and adversely affect the Group's business, results of operations and financial condition.

Kazakhstan's Banking Industry

The global economy and financial system have experienced a period of significant turbulence, uncertainty and disruption since September 2007, which has severely impacted general levels of liquidity and availability of credit together with the terms on which credit is available. Governments around the world, including that of Kazakhstan, have sought to inject liquidity into banking systems and to recapitalise their banking sectors to reduce the risk of systemic failure and increase confidence in the financial markets.

This market disruption has also been accompanied by a slowdown in many economies, including that of Kazakhstan in 2008 and 2009. The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits. Kazakhstan banks have previously relied heavily on such financing and deposits as a source of funding. The high dependence on capital market funding poses a significant refinancing risk for both individual banks and the banking system as a whole. Wholesale debt financing has now become significantly more expensive. In addition, the banking sector in Kazakhstan has been burdened by high levels of non-performing assets and non-performing loans ("**NPLs**") across the sector remain high at over 29.9% of total loans as at 1 August 2013.

The NBK and the Government have taken steps to support the Kazakhstan banking sector. Such steps include the provision of short-term liquidity support, the deposit into local commercial banks of temporary excess cash of enterprises wholly or partially owned by the Government or controlled by the NBK and the establishment by the Government of a distressed assets fund (the "**Distressed Assets Fund**") to buy non-performing assets of commercial banks. If the NBK and the Government were to withdraw their liquidity support, it would lead to decreased overall liquidity in the Kazakhstan banking sector.

The Kazakhstan banking system remains under stress with banks seeking to deleverage through partial repayments and debt restructurings. In addition, loan quality in Kazakhstan remains poor and NPLs have not shown significant signs of improvement, notwithstanding signs of improvement in the Kazakhstan economy. In 2010, BTA Bank, Alliance Bank and JSC Temirbank ("**Temirbank**") each completed the process of restructuring their debts. The completion of the restructuring of Alliance Bank, which was announced on 28 April 2010, resulted in the restructuring or cancellation of over U.S.$4.5 billion of Alliance Bank's financial indebtedness; Temirbank's restructuring, which was announced on 19 July 2010, resulted in the restructuring of approximately U.S.$1.5 billion of Temirbank's financial indebtedness and BTA Bank's restructuring, which was completed on 31 August 2010, resulted in the cancellation of approximately U.S. $16.7 billion of BTA Bank's indebtedness. As a result of the global financial crisis and their respective debt restructurings, all three banks currently have the majority of their shares in Samruk-Kazyna ownership. JSC Astana Finance has also been restructured. In January 2012, BTA Bank failed to make an interest payment due to the holders of senior notes issued as part of the restructuring it completed in 2010 and subsequently agreed terms for a second restructuring completed in 2012. The negative impact of the continuing problems in the banking sector may affect the prospects of Kazakhstan's banks and their customers, including the Group. It is also uncertain what impact the on-going problems in the sector may have on investors' perceptions of Kazakhstan. Such problems could have a negative impact on the country's sovereign credit rating or other adverse developments, which could, in turn, have a material adverse effect on the Group's business, results of operations and financial condition.

Effect of Currency Control Law on the Issuer's Foreign Currency Dealings

In July 2009, the President of Kazakhstan signed a law on the introduction of various amendments to Kazakhstan's currency control legislation, which came into force as at 10 August 2009. The amendments empower the President, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK for conducting currency transactions. Moreover, the President may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the International Monetary Fund, the new currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Prospectus, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the currency regime would ultimately impact the Group. However, significant restrictions on the Group's foreign currency dealings could have a material adverse effect on the Group's business, results of operations and financial condition.

Devaluations of the Tenge

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK devalued the Tenge by 18% to KZT 143.9 per U.S.$1.00. This devaluation was due, in part, to pressure on the balance of payments of Kazakhstan as a result of a decline in commodity prices (in particular oil and gas) in the international markets. Devaluation of the Tenge was also intended to enhance the export competitiveness of Kazakh goods. Since February 2009, the Tenge has generally stabilised. As at 7 November 2013, the official KZT/U.S.$ exchange rate reported by the KASE was KZT 153.77 per U.S.$1.00, as compared to KZT 151.65 as at 30 June 2013, KZT 150.74 as at 31 December 2012 and KZT 148.40 as at 31 December 2011.

A further devaluation or depreciation of the Tenge against the U.S. Dollar or other foreign currencies could negatively affect the Group in a number of ways, including, among other things, by increasing the actual financing cost of the Group of its liabilities denominated in foreign currencies. In addition, there can be no assurance that the NBK will not continue its managed exchange rate policy, which could have an adverse effect on Kazakhstan's public finances and economy, and, in turn, on the Group's business, results of operations and financial condition.

Uncertain Outcome of the Implementation of Further Market Based Economic Reforms

The Government's privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government and there remains a need for substantial investment in many sectors of the Kazakhstan economy, including business infrastructure. Further, the significant size of the shadow economy (or black market) in Kazakhstan may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them may not have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. In addition, there can be no assurance that the Government would not seek to privatise all or a significant portion of the Group, which could have a material adverse effect on the Group's business, results of operations and financial condition.

Dependence on Export Trade and Commodity Prices

As Kazakhstan is negatively affected by low commodity prices, particularly in respect of the oil and gas sector, and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. The Government established the National Fund of Kazakhstan in 2000 to support the financial markets and the economy of Kazakhstan in the event of any sustained drop in oil revenue. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect the Group's business, prospects, financial condition, cash flows or results of operations. Most of the Group's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Group is largely dependent on the economic and political conditions prevailing in Kazakhstan.

The decline in world prices for oil and other commodities from 2008 through early 2009 had a negative impact on the growth prospects of the Kazakhstan economy. The national budget for 2009 to 2011 initially projected revenue on the basis of world oil prices of U.S.$60/bbl. These projections, which were initially revised to U.S.$40 per barrel in light of the continuing decline in world oil prices, were further revised to U.S.$50 for 2009-2010 and U.S.$60 for 2011-2014 as the price of oil began to recover. Although Brent crude oil prices increased overall in 2012 to a maximum of U.S.$116.67/bbl, reflecting a 14.9% increase from prices at the end of December 2011, there can be no assurance that further revisions of the national budget will not be required in light of continuing oil price volatility.

While GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, there can be no assurance that GDP will continue to grow and any slowdown in GDP growth could adversely affect the development of Kazakhstan and, in turn, the Group's business, results of operations and financial condition.

Dependence on Oil Exports, Foreign Investment and the Overall Condition of the Global Oil Industry

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility in earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have an adverse effect on the business, results of operations and financial condition of the Group.

Evolving Nature of Kazakhstan's Legislative, Tax and Regulatory Framework

Although a large volume of legislation has been enacted since early 1995 (including new tax codes in January 2002 and January 2009, laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation), the legal framework in Kazakhstan is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the tax code introduced with effect from 1 January 2009, the unclear nature of certain provisions of legislative acts and regulations, as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system. In particular, the definition of a permanent establishment of a non-resident for tax purposes is not clear under the Tax Code of Kazakhstan № 99-IV dated 10 December 2008 and there is no sufficiently developed judicial interpretation or other enforcement or implementation practices in effect with regard to this matter. This ambiguity may pose difficulties for determining whether any Noteholder is a Kazakhstan or Non-Kazakhstan Holder (as such terms are defined below).

Kazakhstan's tax system is still in a transitional phase and there can be no assurance that new taxes and duties or new tax rates will not be introduced during the life of the Notes. Further changes in the withholding tax regime may give the Issuer the right to redeem Notes prior to their stated maturity.

Kazakhstan's Less Developed Securities Market

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the

United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Issuer's subsidiaries, associates and joint ventures, may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

Accuracy of Official Statistics

Official statistics and other data published by State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. The Issuer has not independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Prospectus.

In addition, certain information contained in this Prospectus is based on the knowledge and research of Management using information obtained from non-official sources. The Issuer has accurately reproduced such information and, so far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Prospectus.

Risk Factors relating to the Notes

Unsecured Obligations

The Notes will constitute (subject to the provisions described in "*Terms and Conditions of the Notes—4(a) Negative Pledge*") unsecured and unsubordinated obligations of the Issuer and rank *pari passu*, without any preference among themselves with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. The Notes will be effectively subordinated to any existing and future secured indebtedness of the Issuer to the extent of the collateral securing such indebtedness. As at 31 December 2012, the Issuer had no material secured indebtedness outstanding.

Redemption Upon a Change of Control or a Permitted Restructuring Event

Upon the occurrence of a Change of Control or a Permitted Restructuring Event (as such terms are defined in the Conditions), the Noteholders will have the option to require the Issuer to redeem or purchase their Notes at 101% of their principal amount, plus any interest accrued to but excluding the Change of Control Put Date or the Permitted Restructuring Event Put Date (as defined in the Conditions). If a Change of Control or a Permitted Restructuring Event occurs, the Issuer may not have sufficient funds to pay the redemption or repurchase price, and may be required to secure third-party financing to do so. The Issuer may not be able to obtain this financing on commercially reasonable terms, or on terms acceptable to it, or at all. The Issuer's failure to redeem or repurchase the Notes following the occurrence of a Change of Control or a Permitted Restructuring Event would constitute an event of default under the Conditions, especially, in the case of a Permitted Restructuring Event, if the Issuer no longer holds sufficient assets following the Permitted Restructuring.

The provisions relating to Change of Control or a Permitted Restructuring Event set forth in the Conditions may not protect investors in the event the Issuer consummates a highly-leveraged transaction, reorganisation, restructuring, merger or other similar transaction, unless such transaction constitutes a Change of Control or a Permitted Restructuring Event under the Conditions. Except as otherwise described above, the Conditions do not contain provisions that permit the holders of the Notes to require the Issuer to repurchase or redeem the Notes in the event of a takeover, recapitalisation or similar transaction.

Moreover, the provisions relating to a Permitted Restructuring Event may not protect investors in the event that the Issuer disposes of assets, where such disposals are made pursuant to a Permitted Restructuring (as defined in the Conditions). Such a Permitted Restructuring will only lead to a Permitted Restructuring Event if it is accompanied by a credit rating downgrade (by two or more rating categories), a credit rating withdrawal or, in the case where the Notes at such time carry no credit rating, a Material Adverse Effect (as defined in the Conditions).

Redemption prior to Maturity for Taxation Reasons

The Issuer may redeem all outstanding Notes in accordance with the Conditions in the event that (i) the Issuer has been, or would be, obliged to increase the amounts payable in respect of the Notes due to certain changes in or amendments to the laws or regulations of Kazakhstan or of any political subdivision or authority therein or thereof having the power to tax, or certain changes in or amendments to the application or official interpretation of such laws or regulations (including a holding by a Court of competent jurisdiction); and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

On any such redemption for taxation reasons, Noteholders would receive the principal amount of the Notes that they held, together with interest accrued on those Notes but unpaid to the date fixed for redemption. Following such redemption, it might not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes.

Modification and Waivers

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and to obtain Written Resolutions (as defined in the Conditions) on matters relating to the Notes from Noteholders without calling a meeting. A Written Resolution signed by, or on behalf of, the holders of not less than 75% in principal amount of the Notes who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed and whose Notes are outstanding shall, for all purposes, be as valid and effective as an Extraordinary Resolution (as defined in the Conditions).

In certain circumstances, where the Notes are held in global form in the clearing systems, the Issuer and the Trustee (as the case may be) will be entitled to rely upon the approval of a resolution by electronic or written consents. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed, the Paying Agency Agreement (as defined in the Conditions) and the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 12 of the Conditions.

EU Directive on the Taxation of Savings Income

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or certain other persons in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to opt out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment to (or for the benefit of) an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other European Union directive or regulation implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such directive or regulation, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer will be required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other directive or regulation implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Change of Law

The Conditions are governed by English law in effect as at the Issue Date. There can be no assurance as to the impact of any possible judicial decision or change to English law or administrative practice after the Issue Date.

The Secondary Market Generally

There will be no established trading market for the Notes when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

In recent years stock markets have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes. In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. Since 2008, the global markets have experienced significant financial turmoil that has had a ripple effect on other emerging markets. These events have caused significant volatility in prices of emerging market debt. Events may occur which would cause significant volatility in the future, which could, in turn, adversely affect the liquidity of the market for, or price of, the Notes.

Exchange Rate Risks and Exchange Controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest Rate Risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit Ratings

Fitch and Moody's, independent credit rating agencies, are expected to assign a credit rating to the Notes, which are expected to be sub-investment grade. The Issuer cannot be certain that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgement, circumstances in the future so warrant. The Issuer has no obligation to inform Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to the Issuer or the Notes may adversely affect the market price of the Notes.

The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal Investment Considerations

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes may be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Insolvency Laws in Kazakhstan

The Company is organised in Kazakhstan and is subject to the bankruptcy law of Kazakhstan. From the moment bankruptcy proceedings are initiated against it in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the start of bankruptcy proceedings, creditors may only make a claim against the debtor to the extent permitted by the Kazakhstan bankruptcy procedure. Contractual provisions, such as those contained in the Notes, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class. Specifically, Kazakhstan bankruptcy law provides that transactions or payments entered into or made (i) at any time prior to the commencement of bankruptcy proceedings which infringe Kazakhstan law may be considered invalid or (ii) within the period beginning three years prior to commencement of the bankruptcy proceedings for no consideration or below market value or favourable treatment of one creditor over another creditor may be clawed back by a Kazakhstan court. Since Kazakhstan's courts are not experienced with complex commercial issues, it is difficult to predict the outcome of a bankruptcy proceeding.

Also, there is a likelihood that recently promulgated bank restructuring legislation may be made applicable to non-banking institutions, which could present significant risks to investors in the event of a default in respect of the Notes.

Enforcement of Judgments Obtained Outside of Kazakhstan

The Company is a company organised under the laws of Kazakhstan and substantially all of the Company's and the Group's businesses, assets and operations are located in Kazakhstan. In addition, all of the Company's directors and executive officers reside in Kazakhstan and substantially all of its assets are located in Kazakhstan. As a result, it may not be possible to effect service of process outside Kazakhstan upon the Company or such directors or executive officers.

Kazakhstan's courts will not enforce any judgment of a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for the reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. Although each of Kazakhstan and the United Kingdom are parties to the New York Convention and, accordingly, an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions of enforcement set out in the New York Convention are met, there is no treaty between Kazakhstan and the United Kingdom for the reciprocal enforcement of judgments. As a result, recognition and enforcement in Kazakhstan of judgments of a court in the United Kingdom and many other jurisdictions in relation to any matter may be difficult.

Further, in February 2010, the Parliament passed legislation amending the Arbitration Law to provide for certain immunities to government entities, including national companies, such as the Company, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities and only to the extent they are performing sovereign functions and not commercial activities, and the issuance of the Notes should be considered a commercial activity (and, under the Trust Deed, the Company has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes), under these amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the notes which, subject to amendment and except for the provisions in italics, will be endorsed on each Definitive Certificate (as defined below) and will (subject to the provisions thereof) apply to the Global Certificate.

The issue of the notes (the "**Notes**", which expression shall include any further Notes issued pursuant to Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the Management Board of the Issuer passed on 2 August 2013, a resolution of the Board of Directors of the Issuer passed on 29 August 2013 and a resolution of the Board of Directors of the Issuer passed on 4 November 2013. The Notes are constituted by a Trust Deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) dated [•] 2013 between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of Notes (the "**Noteholders**"). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed, and of the paying agency agreement (the "**Paying Agency Agreement**") dated [•] 2013 relating to the Notes among the Issuer, the Trustee, Citibank, N.A. London Branch as the principal paying agent and a transfer agent (the "**Principal Paying Agent**" (and, together with any further paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**") and a "**Transfer Agent**", which expressions shall each include any respective successors), and Citigroup Global Markets Deutschland AG, as the registrar and a transfer agent (the "**Registrar**" and a "**Transfer Agent**", which expressions shall each include any respective successors), are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and at the specified offices of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

Capitalised terms used but not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in registered form, without interest coupons attached. The Notes will be issued in denominations of U.S.$200,000 or any amount in excess thereof, which is an integral multiple of U.S.$1,000 (each such denomination, an "**authorised denomination**").

2. TITLE, REGISTRATION AND TRANSFER

(a) **Title:** Title to the Notes will pass by and upon registration in the Register. Each Noteholder shall (except as otherwise required by law) be treated as the absolute owner of such Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Certificate relating thereto (other than the endorsed form of transfer (the "**Transfer Form**")) or any notice of any previous loss or theft of such Definitive Certificate) and no Person shall be liable for so treating such Holder.

(b) **Register:** The Registrar will maintain a register (the "**Register**") in respect of the Notes, which the Issuer shall procure to be kept by the Registrar outside of the United Kingdom in accordance with the provisions of the Paying Agency Agreement. In these Conditions, the "Holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A definitive certificate (each, a "**Definitive Certificate**") will be issued to each Noteholder in respect of its registered holding or holdings of Notes only in certain limited circumstances. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(c) **Transfers**: Subject to paragraphs (f) and (g) below, a Note may be transferred in whole or in an authorised denomination upon surrender of the relevant Definitive Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or a Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Certificate are the subject of the transfer, a new Definitive Certificate in respect of the balance of the Notes will be issued to the transferor; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named Person (or Persons).

(d) **Registration and delivery of Definitive Certificates**: Subject to paragraphs (f) and (g) below, within five business days (as defined below) of the surrender of a Definitive Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Definitive Certificate of the same aggregate principal amount as the Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of the relevant Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office. Where some but not all the Notes in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Notes not so transferred will, within five business days of the surrender of the original Definitive Certificate in accordance with paragraph (c) above, be posted by uninsured first class mail (airmail if overseas) at the request of the Holder of the Notes not so transferred to the address of such Holder appearing on the Register.

(e) **No charge**: Registration or transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but subject to (i) the Person making such application for transfer paying or procuring the payment of, or providing such indemnity as the Registrar or (as the case may be) such Transfer Agent may require for, any tax or other duty or governmental charge of whatsoever nature which may be levied or imposed in connection with such registration or transfer, (ii) the Registrar being satisfied with the document of title and identity of the Person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(f) **Closed periods**: Noteholders may not require transfers to be registered during the period beginning on the fifteenth calendar day before the due date for any payment of principal or interest in respect of such Notes.

(g) **Regulations concerning transfers and registration**: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be posted (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. STATUS

The Notes constitute unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer.

4. NEGATIVE PLEDGE AND COVENANTS

(a) **Negative Pledge**:

So long as any Note remains outstanding, the Issuer shall not, and shall ensure that none of its Subsidiaries shall, create, incur, assume, or permit to arise, any Security Interest, other than a Permitted Security Interest, upon the whole or any part of their respective present or future undertakings, assets or revenues to secure any Indebtedness for Borrowed Money of the Issuer, any Subsidiary or any other Person, or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed are secured, to the satisfaction of the Trustee, equally and rateably with any such Indebtedness for Borrowed Money or Indebtedness Guarantee or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of the Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(b) **Limitation on Disposals**:

So long as any Note remains outstanding, the Issuer will not and will procure that each of its Subsidiaries will not, either in a single transaction or in a series of transactions, whether related or not and whether voluntarily or involuntarily, sell, assign, convey, transfer, grant or otherwise dispose of all or any of its respective assets or property to any Person, except as follows:

(i) sales of inventory in the ordinary course of business by the Issuer or a Subsidiary;

(ii) disposals of assets to the Issuer or a wholly-owned Subsidiary of the Issuer;

(iii) disposals of assets, which are obsolete, redundant, surplus or not necessary for the Issuer's or any Subsidiary's business;

(iv) disposals of assets for which the Issuer or any Subsidiary, as the case may be, receives consideration at the time of such disposal at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the assets subject to such disposal, provided that the net proceeds of any such disposal shall be reinvested in capital assets of the Issuer or any wholly-owned Subsidiary of the Issuer within 180 days following the date of receipt thereof;

(v) disposals of assets by the Issuer or any Subsidiary pursuant to a Permitted Restructuring; or

(vi) disposals of other assets not covered by the provisions of (i) through (iv) above, provided that the aggregate value of all such other assets disposed of since the Issue Date does not exceed at any time 15% of the Issuer's Consolidated Total Assets as shown in the Original Financial Statements or, if greater, the Issuer's then most recent audited or reviewed consolidated financial statements prepared in accordance with IFRS.

(c) **Limitation on Mergers and Consolidations**:

So long as any Note remains outstanding, the Issuer shall not consolidate with or merge into any Person unless:

(i) either (A) the Issuer will be the continuing or surviving entity or (B) the continuing or surviving or transferred Person, if not the Issuer (the "**Successor Company**"), shall be a Person organised and existing under the laws of Kazakhstan or any state which is a member of the European Union, Canada, the United States, any state thereof or the District of Columbia and the Successor Company (if not the Issuer) shall expressly assume, by a supplemental trust deed or by an amendment to the Trust Deed executed and delivered to the Trustee, in form and substance satisfactory to the Trustee, all the obligations of the Issuer hereunder and under the Trust Deed;

(ii) the Issuer delivers to the Trustee an opinion of independent legal counsel or tax advisers of recognised standing acceptable to the Trustee in form and substance reasonably acceptable to the Trustee, to the effect that the Noteholders will not recognise income, gain or loss for tax purposes as a result of the consolidation or merger and will, after the consolidation or merger, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such consolidation or merger had not occurred;

(iii) immediately after giving effect to the consolidation or merger, no Event of Default will have occurred and be continuing and such consolidation or merger shall not result in a Material Adverse Effect;

(iv) the Issuer has delivered to the Trustee (A) an Officers' Certificate stating that the consolidation or merger complied with this Condition 4(c) and that all requirements set out herein relating to the consolidation or merger have been complied with; and (B) an opinion of independent legal counsel of recognised standing acceptable to the Trustee in form and substance satisfactory to the Trustee that the Successor Company has validly assumed the obligations to be assumed by it pursuant to sub-paragraph (i) above and that the Trust Deed and the Notes constitute legal, valid, binding and enforceable obligations of the Successor Company, and the Trustee shall be entitled to rely upon such Officers' Certificate and opinion and shall not be responsible for any loss occasioned by acting (or not acting) on any such Officers' Certificate or opinion, as the case may be; and

(v) the Successor Company expressly agrees (A) to pay such additional amounts as may be necessary in order that the net amounts received by each Noteholder shall, after any deduction or withholding of any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of the Relevant Taxing Jurisdiction of the Successor Company equal the amounts that would have been received by such Noteholder in respect of the Notes held by it in the absence of the consolidation or merger; and (B) to indemnify and hold harmless each Noteholder from and against, and reimburse each such Noteholder for, the amount of any such taxes withheld or deducted from, or paid by such Noteholder in respect of payments made under or with respect to the Notes or the Trust Deed in circumstances where the said obligation to pay additional amounts is or may have become illegal, unenforceable or otherwise invalid.

Upon any consolidation or merger in accordance with this Condition 4(c), the Successor Company shall succeed to and be substituted for, may exercise every right and power of, and shall be bound by every obligation of, the Issuer under the Notes and the Trust Deed with the same effect as if the Successor Company had been named as the Issuer.

(d) **Limitation on Indebtedness**:

So long as any Note remains outstanding, the Issuer will not, and will not permit any Subsidiary to, incur, directly or indirectly, any Indebtedness, *provided however* that the Issuer and any such Subsidiary will be entitled to incur Indebtedness if after giving effect to any such incurrence and the application of the proceeds thereof, on a *pro forma* basis:

(i) no Potential Event of Default or Event of Default would occur and be continuing; and

(ii) the ratio of Consolidated EBITDA on a *pro forma* basis to the aggregate amount of Consolidated Net Finance Costs for the Relevant Financial Period (or, prior to delivery of the first consolidated financial statements following the Issue Date, the fiscal year ended 31 December 2012), does not fall below 3.0 to 1.0.

For purposes of calculating the ratio described in this Condition 4(d), acquisitions that have been made by the Issuer or any Subsidiary, including through mergers or consolidations and including any related financing transactions (including, without limitation, any acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness), (a) during the most recent two fiscal six month periods for which consolidated financial statements have been delivered pursuant to Condition 4(n) (*Financial and Other Information*), or (b) subsequent to such periods and on or prior to the date on which the ratio is calculated, will be given *pro forma* effect as if they had occurred on the first day of the measurement period used in the calculation of Consolidated EBITDA; *provided, however,* that (i) any such *pro forma* adjustment in respect of an acquisition may only be so included in the calculation of Consolidated EBITDA if it shall have been derived from financial statements of, or relating to or including, such acquired entity and (ii) such financial statements have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS (without regard to any modification to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination).

Provided no Potential Event of Default or Event of Default has occurred or would occur as a result of the relevant incurrence, this Condition 4(d) will not prohibit the incurrence of any of the following items of Indebtedness:

(i) intercompany debt (A) between the Issuer and any Subsidiary and (B) between any Subsidiary and another Subsidiary; provided, however, that, subject to the provisions of sub-paragraph (ii) below, any subsequent issue or transfer of any Capital Stock which results in the relevant Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of any such Indebtedness (other than to the Issuer or a Subsidiary) shall be deemed, in each case, to constitute the incurrence of such Indebtedness by the obligor thereon;

(ii) Indebtedness of the Issuer that is expressly subordinated to the prior payment in full of all obligations with respect to the Notes;

(iii) Indebtedness arising out of interest rate agreements or currency hedging agreements directly related to Indebtedness permitted to be incurred pursuant to these Conditions for the benefit of the Issuer or any Subsidiary; *provided however* that such interest rate agreements do not exceed the aggregate principal amount of the related Indebtedness and such currency hedging agreements do not increase the obligations of the Issuer or any Subsidiary other than as a result of fluctuations in interest or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder; and

(iv) refinancings (including successive refinancings) of Indebtedness of the Issuer or any Subsidiary outstanding on the Issue Date or permitted to be incurred under sub-paragraph (b) above; provided, however, that the aggregate principal amount is not thereby increased by more than the expenses incurred by the Issuer or its Subsidiaries in connection with such refinancing together with the amount of any premium to be paid in connection with such refinancing.

(e) **Limitation on Payment of Dividends**:

So long as any Note remains outstanding, the Issuer will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders at any time when there exists a Potential Event of Default or an Event of Default. The Issuer will not permit any Material Subsidiary to make any dividends or other distributions in respect of any Capital Stock of such Material Subsidiary unless such dividends or distributions are made on a pro rata basis to holders of such Capital Stock or such dividends or distributions are made on a basis that results in the Issuer or a Material Subsidiary receiving dividends or other distributions of greater value than would result on a pro rata basis.

(f) **Transactions with Affiliates**:

So long as any Note remains outstanding, the Issuer shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, shall enter into or permit to exist any Affiliate Transaction including, without limitation, intercompany loans, disposals or acquisitions, unless the terms of such Affiliate Transaction are no less favourable to the Issuer or such Subsidiary, as the case may be, than those that could be obtained (at the time of such transaction or, if such transaction is pursuant to a written agreement, at the time of the execution of the agreement providing therefor) in a comparable arm's length transaction with a Person that is not an Affiliate of the Issuer or such Subsidiary.

This Condition 4(f) shall not, however, apply to any of the following (which might otherwise be considered to be an Affiliate Transaction):

(i) any compensation or employee benefit arrangement with any director, officer or employee of the Issuer or any of its Subsidiaries arising as a result of his or her employment contract;

(ii) any transactions pursuant to agreements or arrangements entered into prior to the Issue Date;

(iii) any sale or other transfer (x) of Capital Stock of the Issuer or (y) of Capital Stock of any Subsidiary to the Issuer or another Subsidiary;

(iv) any transactions between the Issuer and a Subsidiary, or a Subsidiary and another Subsidiary;

(v) investments in, or transactions with, joint ventures where all or substantially all of such investment or transaction is directly or indirectly financed by JSC "National Welfare Fund"

"Samruk-Kazyna" or the Government of the Republic of Kazakhstan, provided that such investments or transactions do not, individually or in the aggregate, result in a Material Adverse Effect;

(vi) any transactions in the ordinary course of business, provided that such transactions do not, in themselves or when combined with the effects of all other Affiliate Transactions undertaken pursuant to this Condition 4(f), individually or in the aggregate, result in a Material Adverse Effect; and

(vii) any transactions involving an aggregate amount not exceeding U.S.$15,000,000 in any one calendar year.

(g) **Change of Business:**

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Material Subsidiaries shall, not make any material change to the nature of the business of the Group as conducted on or about the Issue Date.

(h) **Maintenance of Authorisations**:

So long as any Note remains outstanding, (i) the Issuer shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence, business and operations, and (ii) the Issuer shall take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery and performance of the Notes, the Trust Deed and the Paying Agency Agreement and for the validity and enforceability thereof.

(i) **Payment of Taxes and Other Claims**:

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Subsidiaries shall, pay or discharge or cause to be paid or discharged before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Issuer and its Subsidiaries, provided that none of the Issuer or any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or governmental charge, (i) the amount, applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made, or (ii) if a failure to pay or discharge or cause to be paid or discharged such amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, would not have a Material Adverse Effect.

(j) **Compliance with Laws**:

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Subsidiaries shall, comply in all respects with all laws to which it is subject, except where the failure so to comply could not have a Material Adverse Effect.

(k) **Maintenance of Property**:

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Subsidiaries shall, cause all property used in the carrying on by it of its business for the time being be kept in good condition, repair and working order as may be reasonably necessary so that the business may be carried on in accordance with applicable laws of the Republic of Kazakhstan.

(l) **Environmental Laws**:

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Subsidiaries shall, comply in all respects with all Environmental Laws and Environmental Approvals applicable to it, save where any such non-compliance would not have a Material Adverse Effect.

(m) **Maintenance of Insurance**:

So long as any Note remains outstanding, the Issuer shall, and shall ensure that its Material Subsidiaries shall, insure its business and assets with insurance companies to such an extent and against such risks as companies engaged in a similar business would normally insure, as required by applicable laws of the Republic of Kazakhstan.

(n) **Financial and Other Information**:

So long as any Note remains outstanding, the Issuer will furnish to the Trustee:

(i) in each case in the English language, (A) a copy of the Issuer's audited consolidated financial statements for each financial year prepared in accordance with IFRS consistently applied, including a report thereon by the Issuer's certified independent accountants, as soon as such are completed and available, but in any event not later than 180 days after the end of each financial year of the Issuer; and (B) to the extent prepared and available, a copy of the Issuer's unaudited consolidated financial statements for the first half of each financial year prepared in accordance with IFRS consistently applied as soon as the same are completed and available, but in any event where the same are completed and available, not later than 120 days after the end of the first half year of each financial year of the Issuer; and

(ii) without undue delay, such additional information regarding the financial position or the business of the Issuer and any Material Subsidiary as the Trustee may reasonably request, provided that, without prejudice to paragraph (i), nothing in this paragraph (ii) shall require the Issuer to furnish any information or take any action, which would result in a violation of any applicable laws or regulations, including, without limitation, in relation to matters of state secrecy or national defence.

(o) **Officer's Certificates**:

So long as any Note remains outstanding:

(i) the Issuer will, at the same time as delivering any financial statements pursuant to Condition 4(n) (*Financial and Other Information*) and within 14 days of any request by the Trustee, deliver to the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default (as defined in the Trust Deed) or Event of Default has occurred and, if it has occurred and is continuing, what action the Issuer is taking or proposes to take with respect thereto and that the Issuer is otherwise in compliance with its obligations under the Trust Deed; and

(ii) the Issuer will, within 14 days of any request by the Trustee, deliver to the Trustee and Officers' Certificate specifying those companies which were, at a date no more than 10 days before the date of such Officers' Certificate, Material Subsidiaries.

5. INTEREST

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the rate of [•]% per annum, payable semi-annually in arrear in equal instalments of U.S.$[•] per Calculation Amount (as defined below) on [•] and [•] in each year (each an "**Interest Payment Date**"), commencing on [•] 2014 (the "**Interest Commencement Date**"). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than an Interest Period, it will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including [•] 2013 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to an Interest Period, be equal to the product of [•]%, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6. REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on [•]. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount (together with interest accrued but unpaid to the date fixed for redemption), if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a Court of competent jurisdiction or arbitral tribunal), which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders.

(c) **Redemption at the Option of Noteholders upon a Change of Control**: If at any time while any Note remains outstanding a Change of Control occurs, the Issuer shall, at the option of the holder of any such Note, redeem or purchase such Note on the Change of Control Put Date (as defined below) at 101% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued but unpaid to but excluding the Change of Control Put Date.

Such option (the "**Change of Control Put Option**") shall operate as set out below.

If a Change of Control occurs, then the Issuer shall, within 14 days of the occurrence of the Change of Control, and, the Issuer having failed to do so, the Trustee shall, if so requested by the holders of at least 25% in principal amount of the Notes then outstanding (subject to it being indemnified, secured and/or pre-funded to its satisfaction), give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 16 (Notices) specifying the nature of the Change of Control and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any business day (being, for the purposes of this paragraph, a day on which commercial banks are open for business in the city where such Paying Agent has its specified office), falling within the period commencing on the date on which the Change of Control Notice is given to Noteholders as required by this Condition 6(c) and ending 90 days after such date (the "**Change of Control Put Period**"), a duly signed and completed notice of exercise in the form obtainable from any specified office of any Paying Agent (a "**Change of Control Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Control Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes, which are the subject of each Change of Control Put Option Notice on the date (the "**Change of Control Put Date**") seven days after the expiration of the Change of Control Put Period unless previously redeemed or purchased and cancelled. A Change of Control Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Control Put Option Notice.

For the purposes of this Condition 6(c), a "**Change of Control**" will occur if at any time the Government of the Republic of Kazakhstan ceases to own, directly or indirectly 80%, of the issued share capital of the Issuer or ceases to control, directly or indirectly, the Issuer.

(d) **Redemption at the Option of Noteholders upon a Permitted Restructuring Event**: If at any time while any Note remains outstanding a Permitted Restructuring Event occurs, the Issuer shall, at the option of the holder of any such Note, redeem or purchase such Note on the Permitted Restructuring Event Put Date (as defined below) at 101% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued but unpaid to but excluding the Permitted Restructuring Event Put Date.

Such option (the "**Permitted Restructuring Event Put Option**") shall operate as set out below.

If a Permitted Restructuring Event occurs, then the Issuer shall, within 14 days of the occurrence of the Permitted Restructuring Event, and, the Issuer having failed to do so, the Trustee shall, if so requested by the holders of at least 25% in principal amount of the Notes then outstanding (subject to it being indemnified, secured, and/or pre-funded to its satisfaction), give notice (a "**Permitted Restructuring Event Notice**") to the Noteholders in accordance with Condition 16 (Notices) specifying the nature of the Permitted Restructuring Event and the procedure for exercising the Permitted Restructuring Event Put Option.

To exercise the Permitted Restructuring Event Put Option, a holder of Notes must deliver at the specified office of any Paying Agent on any business day (being, for the purposes of this paragraph, a day on which commercial banks are open for business in the city where such Paying Agent has its specified office) falling within the period commencing on the date on which the Permitted Restructuring Event Notice is given to Noteholders as required by this Condition 6(d) and ending 90 days after such date (the "**Permitted Restructuring Event Put Period**"), a duly signed and completed notice of exercise in the form obtainable from any specified office of any Paying Agent (a "**Permitted Restructuring Event Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Permitted Restructuring Event Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes, which are the subject of each Permitted Restructuring Event Put Option Notice on the date (the "**Permitted Restructuring Event Put Date**") seven days after the expiration of the Permitted Restructuring Event Put Period unless previously redeemed or purchased and cancelled. A Permitted Restructuring Event Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Permitted Restructuring Event Put Option Notice.

(e) **Notice** of redemption: All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(f) **Purchase**: The Issuer and its Subsidiaries may at any time purchase or procure others to purchase on its behalf Notes in the open market or otherwise at any price. Notes so purchased may be held, rescinded or resold or surrendered by the Issuer for cancellation at the option of the Issuer. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Conditions 9, 12(a) and 13.

(g) **Cancellation**: All Notes so redeemed or purchased and submitted for cancellation will be cancelled and may not be re-issued or resold.

7. PAYMENTS

(a) **Method of Payment**:

(i) Payments of principal shall be made (subject to surrender of the relevant Definitive Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Definitive Certificates) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the fifteenth business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made by U.S. Dollar cheque drawn on a bank and mailed to the holder (or to the first named of joint holders) of such Note by uninsured first class mail (airmail if overseas) at its address appearing in the Register or by bank transfer to a U.S. Dollar denominated account. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. Dollars maintained by the payee with a U.S. Dollars account bank.

(iii) If the amount of principal being paid upon surrender of the relevant Definitive Certificate is less than the outstanding principal amount of such Definitive Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Definitive Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in U.S. Dollars, payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Definitive Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Definitive Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar, and the Transfer Agents initially **appointed** by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar, and the Transfer Agents act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, or any Transfer Agent and to appoint additional or other Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, and (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved in writing by the Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(e) **Delay in Payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, if the Noteholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 7(a)(ii) arrives after the due date for payment.

(f) **Non-business days**: If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" has the meaning given to it in Condition 2(d) provided that such business day is a day on which commercial banks are open for business in New York City.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature unless such withholding or deduction is required by law. In the event that such withholding or deduction is imposed, levied, collected, withheld or assessed by or within the Republic of Kazakhstan or any authority therein or thereof having power to tax, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) **Other connection**: by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Republic of Kazakhstan other than the mere holding of the Note; or

(b) **Presentation more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days; or

(c) **Payment to individuals**: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union directive or regulation implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any loss implementing or complying with, or introduced in order to conform to, such directive or regulation.

"**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Kazakhstan, references in these Conditions to the Republic of Kazakhstan shall be construed as references to the Republic of Kazakhstan and such other jurisdiction to which the Issuer has become subject.

9. EVENTS OF DEFAULT

If any of the following events ("**Events of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25% of the principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified, secured, and/or prefunded to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount together with accrued interest to the date of redemption:

(a) **Non-Payment:** default is made in the payment on the due date of principal in respect of any of the Notes, or default is made for more than five business days in the payment on the due date of interest or additional amounts in respect of any of the Notes; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations in the Notes which default is incapable of remedy or is not remedied within 30 calendar days (or such longer period as the Trustee may in its sole discretion determine) after written notice of such default has been given to the Issuer or by the Trustee; or

(c) **Cross-Default**:

(i) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any default or the like (howsoever described), or (ii) any such Indebtedness for Borrowed Money is not paid when due or, as the case may be, within any applicable grace period, or (iii) any Indebtedness Guarantee given by the Issuer or any Material Subsidiary in respect of any Indebtedness for Borrowed Money of any other Person is not honoured when due and called, save in each case where the liability in respect of the aggregate principal amount outstanding under such Indebtedness for Borrowed Money in respect of which one of the events mentioned in this Condition has occurred does not exceed U.S.$15,000,000 (or its equivalent in another currency); or

(d) **Invalidity or Unenforceability**:

(i) the validity of the Notes or the Trust Deed is contested by the Issuer, or the Issuer denies any of its obligations under the Notes, the Trust Deed or the Paying Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), (ii) it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Paying Agency Agreement or (iii) all or any of the Issuer's obligations set out in the Notes, the Trust Deed or the Paying Agency Agreement shall be or become unenforceable or invalid; or

(e) **Insolvency or Bankruptcy:**

(i) a proceeding shall have been instituted or a decree or order shall have been entered for the appointment of a receiver, administrator, liquidator or other similar officer in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Material Subsidiary or all or, in the opinion of the Trustee, substantially all of any of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days or (ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of it or in respect of its property or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or is (or could be deemed by law or a court or arbitral tribunal to be) insolvent or bankrupt or commences proceedings with a view to the general adjustment of its Indebtedness; or

(f) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a substantial part, in the opinion of the Trustee, of the property, assets or revenues of the Issuer or any Material Subsidiary and is not discharged or stayed within 90 days; or

(g) **Security Enforced**: any Security Interest, present or future, created or assumed by the Issuer or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar Person) and the aggregate amount secured by any such Security Interests so enforced exceeds U.S.$15,000,000 (or its equivalent in any other currency); or

(h) **Judgments**: a final judgment or judgments for the payment of money have been entered by a court or courts of competent jurisdiction or arbitral tribunal against the Issuer or any Material Subsidiary and remain undischarged or waived for a period of at least 90 days without stay of execution of the relevant judgment or judgments during the period and the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid by insurance) exceeds U.S.$15,000,000 (or its equivalent in any other currency) (for this purpose, any deductibles, self-insurance or retention shall not be treated as covered by insurance); or

(i) **Winding-Up**: an order is made or an effective resolution is passed for the winding-up or dissolution of the Issuer or any Material Subsidiary or the Issuer or any Material Subsidiary ceases to carry on all or, in the opinion of the Trustee, a material part, of its business or operations, except (i) for the purpose of and followed by a merger or consolidation which is permitted by Condition 4(c) (Limitation on Mergers and Consolidations) or (ii) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders or (iii) in the case of a Material Subsidiary, but not arising out of the insolvency of such Material Subsidiary, where all or substantially all of its assets are transferred to another member or members of the Group or to a transferee or transferees which immediately upon such transfer become(s) a member of the Group; or

(j) **Analogous Events**: any event occurs, which, under the laws of the Republic of Kazakhstan, has an analogous effect to any of the events referred to in paragraphs (e) to (i) above; or

(k) **Authorisations and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration, the entering into of all necessary agreements or other documents and the compliance in all material respects (in the opinion of the Trustee) with any applicable laws or regulations (including any foreign exchange rules or regulations pertaining to the Issuer's ability to make payments in respect of the Notes or otherwise under the Trust Deed) of any governmental or other regulatory authority) which is at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed or (ii) to ensure that those obligations are legally binding and enforceable is not done, lapses and is not renewed or is cancelled or otherwise ceases to be maintained in full force and effect; or

(l) **Government Intervention**: (i) all or, in the opinion of the Trustee, a substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government, or (ii) the Issuer or any Material Subsidiary is prevented by any such Person from exercising normal control over all or, in the opinion of the Trustee, a substantial part of its undertaking, assets and revenues.

10. PRESCRIPTION

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 7 within a period of ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

11. REPLACEMENT OF DEFINITIVE CERTIFICATES

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee as provided in the Trust Deed upon the request in writing of Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing more than 50%, in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes (including any modification of the terms relating to the Change of Control Put Option or the Permitted Restructuring Event Put Option), (ii) to reduce or cancel the principal amount of, interest on, or any premium payable upon the redemption of the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing ("**Written Resolution**") signed by or on behalf of the holders of not less than 75% in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification and Waiver**: The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Conditions, the Trust Deed or Paying Agency Agreement which in its opinion is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Conditions and the Paying Agency Agreement, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee**: In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

13. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25% in principal amount of the Notes outstanding, and (b) it shall have been indemnified, secured and/or pre-funded to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16. NOTICES

Notices to the holders of Notes shall be posted to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing, provided that whilst the Notes are listed on the Irish Stock Exchange and Kazakhstan Stock Exchange and the rules of such stock exchanges so require, all notices to Noteholders shall be deemed to be duly given if they are filed for publication with the Kazakhstan Stock Exchange and with the Companies Announcements Office of the Irish Stock Exchange.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW, JURISDICTION AND ARBITRATION

(a) **Governing Law:** The Trust Deed, the Notes, the Paying Agency Agreement and any non- contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.

(b) **Arbitration:** The Issuer has in the Trust Deed irrevocably agreed that any dispute arising out of or connected with the Trust Deed and/or the Notes, including a dispute as to their validity, existence or termination or the consequences of their nullity, shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators (each party having the right to nominate one arbitrator) in accordance with the LCIA Rules, save that Article 5.6 of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court. The Issuer has in the Trust Deed agreed to exclude the jurisdiction of the English courts under sections 45 and 69 of the Arbitration Act 1996.

19. DEFINITIONS

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person.

"**Affiliate Transaction**" means a transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate.

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended).

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalised lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the stated maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"**Consolidated EBITDA**" means, with respect to any Relevant Financial Period, the Consolidated Net Income of the Issuer and its Subsidiaries, adjusted for the following to the extent not adjusted in calculating such Consolidated Net Income:

(i) plus Consolidated Interest Expense;

(ii) plus (or minus) Consolidated Interest Income;

(iii) plus Consolidated Income Taxes;

(iv) plus consolidated depreciation expense;

(v) plus consolidated amortisation of intangibles; and

(vi) plus other non-cash charges reducing Consolidated Net Income (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash charges in any future period or amortisation of a prepaid cash expense that was paid in a prior period not included in the calculation) less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period);

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortisation and non-cash charges of, a Subsidiary shall be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion, including by reason of minority interest) that the net income or loss of such Subsidiary was included in calculating Consolidated Net Income.

"**Consolidated Income Taxes**" means any income tax expense or credit of the Issuer and its Material Subsidiaries on a consolidated basis in accordance with IFRS as shown in the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**Consolidated Interest Expense**" means, for any period, the total interest expense of the Issuer and its Subsidiaries, on a consolidated basis in accordance with IFRS, whether paid or accrued, plus as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012), to the extent not included in such interest expense:

(i) interest expense attributable to Capitalised Lease Obligations and the interest portion of rent expense associated with Attributable Indebtedness in respect of the relevant lease giving rise thereto, determined as if such lease were a capitalised lease in accordance with IFRS and the interest component of any deferred payment obligations;

(ii) amortisation of debt discount and debt issuance cost;

(iii) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(iv) interest actually paid by the Issuer or any such Subsidiary under any Indebtedness Guarantee or other obligation of any other Person;

(v) net costs associated with Hedging Obligations;

(vi) all dividends paid or payable in cash, temporary cash investments or Indebtedness or accrued during such period on any series of Disqualified Stock of such Person or on Preferred Stock of its Subsidiaries payable to a party other than the Issuer or a Subsidiary; and

(vii) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Issuer) in connection with Indebtedness incurred by such plan or trust.

For purposes of the foregoing, total interest expense will be determined after giving effect to any net payments made or received by the Issuer and its Subsidiaries, on a consolidated basis, with respect to interest rate agreements.

"**Consolidated Interest Income**" means, for any period, the total interest income of the Issuer and its Material Subsidiaries, on a consolidated basis in accordance with IFRS, whether paid or accrued as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**Consolidated Net Finance Costs**" means, for any period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Indebtedness whether paid or payable by any of the Issuer and/or its Subsidiaries in respect of that period:

(i) excluding (without double counting) any such obligations owed to any other member of the Group;

(ii) including the interest element of leasing and hire purchase payments;

(iii) including any accrued commission, fees, discounts and other finance payments payable by the Issuer or its Subsidiaries under any interest rate hedging arrangement;

(iii) with any accrued commission, fees, discounts and other finance payments owing to the Issuer or its Subsidiaries under any interest rate hedging instrument having been deducted; and

(iv) with any accrued interest owing to the Issuer or its Subsidiaries on any deposit or bank account having been deducted.

in each case on a consolidated basis and determined in accordance with IFRS as shown in the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**Consolidated Net Income**" means, for any Relevant Financial Period, the net profit (loss) of the Issuer and its Subsidiaries, on a consolidated basis, determined in accordance with IFRS as shown in the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**Consolidated Total Assets**" means, at any date of determination, the amount of the consolidated total assets of the Issuer and its Material Subsidiaries, as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**control**" when used with respect to any Person means (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) having the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of another Person or otherwise controlling, or having the power to control, the affairs and policies of such other Person.

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option to the holder) or upon the happening of any event:

(i) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(ii) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(iii) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part.

"**Environmental Approval**" means any authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the business of the Group conducted on or from properties owned or used by the Group.

"**Environmental Law**" means any applicable Kazakh law of regulation or, in respect of assets held outside the Republic of Kazakhstan, any applicable law or regulation relating to the pollution or protection of the environment, the harm to or the protection of human health, or any emission or substance capable of causing harm to any living organism or the environment.

"**Event of Default**" has the meaning given to it in Condition 9 (Events of Default).

"**Extraordinary Resolution**" has the meaning assigned to such term in the Trust Deed;

"**Fair Market Value**" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Issuer or the relevant Subsidiary, as the case may be.

"**Group**" means the Issuer and its Subsidiaries taken as a whole.

"**guarantee**" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or

(ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however, that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person guaranteeing any obligation;

"**Hedging Obligation**" of any Person means the obligation of such Person pursuant to any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, foreign exchange contract, currency swap agreement, forward, futures, spot-deferred or option contract or other similar agreement to which the Person is a party or a beneficiary.

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), as consistently applied.

"**Indebtedness**" means any indebtedness in respect of monies borrowed and (without double counting) guarantees given (other than those given in the ordinary course of business), whether present or future, actual or contingent.

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing.

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness.

"**interest**" shall include all interest and all other amounts payable pursuant to Condition 5 (Interest) or any amendment or supplement to it, and shall be deemed to include any additional amounts that may be payable under Condition 8 (Taxation).

"**Issue Date**" means [•] 2013.

"**Material Adverse Effect**" means a material adverse effect on (i) the business, operations, property or condition (financial or otherwise), prospects or results of operations of the Issuer or the Group; or (ii) the Issuer's ability to perform or comply with its obligations under the Notes or the Trust Deed.

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 10%, of the consolidated gross assets, or, as the case may be consolidated gross revenues of the Issuer and its consolidated Subsidiaries and, for these purposes:

(i) the gross assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited consolidated financial statements prepared based on IFRS (or, if none, its then the most recent management accounts); and

(ii) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements prepared based on IFRS.

"**Noteholder**" has the meaning given to it in the Trust Deed.

"**Officers' Certificate**" means a certificate signed by a duly authorised representative of the Issuer, who shall be the principal executive officer, principal accounting officer or principal financial officer of the Issuer or his or her duly appointed designee.

"**Original Financial Statements**" means the reviewed consolidated financial statements of the Issuer as at and for the six months ended 30 June 2013.

"**outstanding**" has the meaning given to it in the Trust Deed.

"**Permitted Restructuring**" means any restructuring or reorganisation of the Issuer or any Subsidiary or any sale, assignment, conveyance, transfer, grant or other or disposal by the Issuer or any of its Subsidiaries of all or part of their respective assets, in each case, pursuant to any requirement of any law, regulation, order, resolution or decree of JSC "National Welfare Fund" "Samruk-Kazyna", the Government of the Republic of Kazakhstan or any ministry, agency, authority or other instrumentality thereof.

"**Permitted Restructuring Event**" will be deemed to occur if:

(a) on or following the date that is the earlier of (1) the date of the relevant Permitted Restructuring and (2) the date of the earliest Relevant Potential Permitted Restructuring Announcement (if any) either:

  (i) the credit rating assigned to the Notes by any Rating Agency, whether provided by such Rating Agency at the invitation of the Issuer or by its own volition, is either downgraded by two or more rating categories (*being from Ba1 to Ba3 or such similar lowering*) or withdrawn; or

(ii) in the case where the Notes at such time carry no credit rating from any Rating Agency, a Material Adverse Effect has occurred; and

(b) any such decision to downgrade or withdraw a credit rating, or, as the case may be, such Material Adverse Effect, resulted, in whole or in part, from the occurrence of the Permitted Restructuring or the Relevant Potential Permitted Restructuring Announcement.

"**Permitted Security Interest**" means, without duplication:

(i) Security Interests existing as at the Issue Date of the Notes;

(ii) Security Interests granted in favour of the Issuer or by any Subsidiary in favour of another Subsidiary;

(iii) Security Interests on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; provided that any such Security Interest secures Indebtedness only under such lease;

(iv) Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Subsidiary or becomes a Subsidiary; provided that such Security Interests were not created in contemplation of such merger or consolidation or event and do not extend to any assets or property of the Issuer already existing or any Subsidiary other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

(v) Security Interests already existing on assets or property acquired or to be acquired by the Issuer or any Subsidiary; provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);

(vi) Security Interests granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by any member of the Group to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property and related transactional expenses;

(vii) any Security Interests arising by operation of law;

(viii) Security Interests for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings and for which the Issuer or any Subsidiary has set aside in its books of account appropriate reserves;

(ix) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Security Interests arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Group and existing, arising or incurred in the ordinary course of business;

(x) statutory landlords' Security Interests (so long as such Security Interests do not secure obligations constituting Indebtedness for Borrowed Money and such Security Interests are incurred in the ordinary course of business);

(xi) a right of set off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(xii) Security Interests on the property, income or assets of the Issuer or any Material Subsidiary securing Indebtedness to the extent that at the time of incurrence of such Indebtedness, such Indebtedness together with the aggregate principal amount of other Indebtedness subject to any Security Interest granted in accordance with this paragraph (xii) does not exceed in the aggregate 20% of Consolidated Total Assets at any one time outstanding. For the avoidance of doubt, for purposes of calculating the cap imposed under this paragraph (xii) no Security Interests created in accordance with paragraphs (i) to (xi) above shall be counted;

(xiii) Security Interests arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Potential Event of Default**" means any event or circumstance which could with the giving of notice or the lapse of time become an Event of Default.

"**Preferred Stock**" means as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Rating Agency**" means Moody's Investors Service, Inc. ("**Moody's**"), Fitch Ratings Ltd. ("**Fitch**") or Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc. ("**S&P**") or any of their respective affiliates or successors or any rating agency (a "**Substitute Rating Agency**") substituted for any of them by the Issuer from time to time.

"**Relevant Financial Period**" means either:

(a) if the Issuer has delivered, pursuant to Condition 4(n) (*Financial and Other Information*):

(i) audited consolidated financial statements for the financial year prior to the current financial year,

(ii) unaudited consolidated financial statements for the first half of the financial year prior to the current financial year, and

(iii) unaudited consolidated financial statements for the first half of the current financial year;

the two most recent six month fiscal periods immediately prior to the date of such incurrence; or

(b) in the event that the Issuer has not delivered the consolidated financial statements set out in (a) (ii) and (iii) above, the most recent fiscal year immediately prior to the date of such incurrence for which audited consolidated financial statements have been delivered pursuant to Condition 4(n) (*Financial and Other Information*) (or, prior to delivery of the first consolidated financial statements following the Issue Date, the consolidated financial statements of the Issuer for the fiscal year ended 31 December 2012).

"**Relevant Potential Permitted Restructuring Announcement**" means any public announcement or statement by the Issuer, any Subsidiary, the JSC "Sovereign Wealth Fund" "Samruk-Kazyna", the Government of the Republic of Kazakhstan or any ministry, agency, authority or other instrumentality thereof relating to any potential Permitted Restructuring.

"**Relevant Taxing Jurisdiction**" means the jurisdiction or organisation of the Issuer, or any jurisdiction from or through which payment is made and (if different) any jurisdiction in which the payor is resident for tax purposes at the time of payment, and any political subdivision or taxing authority thereof or therein.

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby the Issuer or a Material Subsidiary transfers such property to a Person and the Issuer or a Material Subsidiary leases it from such Person.

"**Security Interest**" means any mortgage, charge, pledge, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50%, of the capital, voting stock or other right of ownership.

"**taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by any competent taxing authority.

"**U.S. Dollars**", "**U.S.D.**" and "**U.S.$**" denote the lawful currency of the United States of America.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Certificates

The Notes will be represented on issue by a Global Certificate, which will be registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") and may be delivered on or prior to the Issue Date.

References in the Conditions to "**Noteholders**" shall, for so long as the Notes are represented by the Global Certificate, be references to the registered holder of the Global Certificate which, for so long as the Global Certificate is registered in the name of a nominee for the Common Depositary, will be such nominee. Upon the registration of the Global Certificate in the name of any nominee for the Common Depositary and delivery of the Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with an interest in a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Except in the limited circumstances described below, owners of interests in the Global Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Certificates**"). The Notes are not issuable in bearer form.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by the Global Certificate and such obligations of the Issuer will be discharged by payment to the holder of the Global Certificate in respect of each amount so paid.

Exchange

The Global Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Certificates: (a) if Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or (b) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or (c) with the consent of the Issuer. In such circumstances, such Definitive Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant events specified.

Delivery

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Certificate for Definitive Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

Amendment to Conditions

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Conditions set out in this Prospectus. The following is a summary of certain of those provisions:

Payments

All payments of principal and interest in respect of Notes represented by the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date, which shall be on the Clearing System Business Day immediately prior to the date for payment. "**Clearing System Business Day**" for the purposes of this paragraph means Monday to Friday, inclusive, except 25 December and 1 January.

Notices

Notwithstanding Condition 16 (*Notices*), so long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of a common depositary for a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions and such notices shall be deemed to have been given on the day of delivery to the relevant clearing systems, provided that whilst the Notes are listed on the Irish Stock Exchange and the KASE and the rules of such stock exchanges so require, all notices to Noteholders shall be deemed to be duly given if they are filed for publication with the KASE and the Companies Announcements Office of the Irish Stock Exchange.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Certificate shall (unless the Global Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders and as being entitled to one vote in respect of each U.S.$1,000 in principal amount of Notes.

Trustee's Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by the Global Certificate.

Change of Control Put Option and Permitted Restructuring Event Put Option

The Noteholders' Change of Control Put Option in Condition 6(c) and Permitted Restructuring Event Put Option in Condition 6(d) may be exercised by the holder of the Global Certificate, giving notice to the Paying Agent of the principal amount of Notes in respect of which the relevant option is exercised. The exercise of the relevant option will be subject to the normal rules and operating procedures (to the extent applicable) of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System.

Electronic Consent and Written Resolution

While any Global Certificate is registered in the name of any nominee for a clearing system, then:

(a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75% in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the special quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. For the purposes of this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified, together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

SELECTED FINANCIAL AND OTHER INFORMATION

The following tables set forth, as at the dates and for the periods indicated, selected consolidated financial information of the Group, which has been extracted from, should be read in conjunction with and is qualified in its entirety by the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

Prospective investors should read the following information in conjunction with the information contained in the "Risk Factors", "Business" and the Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Prospectus.

Consolidated Statement of Financial Position

	As at 30 June		As at 31 December				Change between	
	2013[1] (unaudited)	**2013 (unaudited)**	**2012[2] (unaudited)**	**2012**	**2011**	**2010[3]**	**30 June 2013 and 31 December 2012**	**31 December 2012 and 2011**
	(U.S.$ millions)	*(KZT millions)*	*(U.S.$ millions)*	*(KZT millions)*			*(%)*	
ASSETS								
Non-current assets								
Property, plant and equipment	75.7	11,475.5	67.3	10,146.2	7,298.8	7,645,8	13.1	39.0
Intangible assets	1.5	230.5	1.4	212.3	164.8	158.5	8.6	28.8
Investments in associates and joint ventures	25.0	3,788.9	28.3	4,267.1	3,516.3	1,532.8	(11.2)	21.4
Other non-current assets	2.5	386.0	7.1	1,063.2	342.3	108.3	(63.7)	210.6
Deferred tax assets	1.0	147.8	1.4	213.7	132.6	79.3	(30.8)	61.2
Investment property	0.3	40.4	0.3	45.2	54.8	—	(10.6)	(17.5)
Long-term investments	0.0	4.4	0.0	4.4	4.4	5.5	0.0	0.0
Total non-current assets	**106.0**	**16,073.6**	**105.8**	**15,952.1**	**11,513.8**	**9,530.1**	**0.8**	**38.5**
Current assets								
Inventory	102.6	15,554.8	72.2	10,887.2	8,198.0	5,834.3	42.9	32.8
Trade accounts receivable	26.3	3,993.5	12.1	1,817.0	1,159.3	1,199.4	119.8	56.7
Income tax prepaid	4.5	685.3	1.0	146.4	79.2	90.0	368.1	84.8
Other taxes recoverable	8.9	1,349.2	4.3	641.5	557.6	260.2	110.3	15.0
Restricted cash	—	—	0.6	87.1	82.4	81.8	(100.0)	5.7
Other current assets	76.7	11,627.3	41.8	6,296.2	2,268.5	847.7	84.7	177.5
Cash and cash equivalents	100.7	15,269.9	67.1	10,114.6	3,485.7	6,467.2	51.0	190.2
	319.7	48,479.9	199.0	29,990.1	15,830.6	14,780.7	61.7	89.4
Non-current assets classified as held-for-sale	0.0	1.8	0.0	1.8	64.0	0.1	0.0	(97.2)
Total current assets	**319.7**	**48,481.7**	**199.0**	**29,992.0**	**15,894.6**	**14,780.7**	**61.6**	**88.7**
TOTAL ASSETS	**425.7**	**64,555.3**	**304.8**	**45,944.0**	**27,408.4**	**24,310.8**	**40.5**	**67.6**

	As at 30 June		As at 31 December				Change between	
	2013[1] (unaudited)	2013 (unaudited)	2012[2] (unaudited)	2012	2011	2010[3]	30 June 2013 and 31 December 2012	31 December 2012 and 2011
	(U.S.$ millions)	*(KZT millions)*	*(U.S.$ millions)*	*(KZT millions)*			*(%)*	
EQUITY								
Charter capital	79.8	12,101.8	80.3	12,101.8	12,101.8	12,101.8	0.0	0.0
Additional paid-in capital	5.5	841.0	4.9	743.3	522.8	522.8	13.1	42.2
Retained earnings	49.0	7,424.2	51.1	7,696.4	3,874.5	1,856.5	(3.5)	98.6
Equity attributable to the Parent of the Company	134.3	20,367.1	136.3	20,541.5	16,499.2	14,481.2	(0.8)	24.5
Non-controlling interests	4.1	628.3	3.7	561.4	573.2	458.6	11.9	(2.1)
Total equity	**138.4**	**20,995.4**	**140.0**	**21,102.9**	**17,072.4**	**14,939.8**	**(0.5)**	**23.6**
LIABILITIES								
Non-current liabilities								
Loans	1.4	216.1	3.1	462.3	539.2	342.7	(53.3)	(14.3)
Debt securities issued	93.6	14,190.1	28.7	4,327.8	—	—	227.9	100.0
Finance lease obligations	6.1	927.0	9.4	1,415.8	479.2	602.6	(34.5)	195.5
Other non-current liabilities	9.5	1,440.5	1.4	218.2	866.3	1,077.3	560.2	(74.8)
Deferred tax liabilities	4.4	673.4	4.2	639.6	642.9	624.4	5.3	(0.5)
Debt component of preferred shares	1.4	205.1	1.4	205.1	197.8	182.3	0.0	3.7
Total non-current liabilities	**116.4**	**17,652.1**	**48.2**	**7,268.9**	**2,725.5**	**2,829.4**	**142.8**	**166.7**
Current liabilities								
Loans and current portion of long-term loans	48.3	7,328.3	41.3	6,220.4	2,440.3	1,480.3	17.8	154.9
Current portion of debt securities issued	0.7	112.5	0.2	34.0	—	—	230.9	100.0
Current portion of finance lease obligations	0.9	143.4	2.3	345.0	152.8	57.5	(58.4)	125.8
Financial liability at fair value through profit or loss	—	—	1.4	204.4	183.2	154.8	(100.0)	11.6
Trade accounts payable	18.2	2,762.7	25.9	3,911.6	719.9	1,403.2	(29.4)	443.4
Income tax payable	0.2	35.4	1.6	236.1	156.3	71.5	(85.0)	51.1
Other taxes payable	4.1	616.3	9.5	1,427.2	1,024.4	457.6	(56.8)	39.3
Other current liabilities	98.3	14,909.2	34.5	5,193.5	2,933.7	2,916.7	187.1	77.0
Total current liabilities	**170.8**	**25,907.8**	**116.6**	**17,572.2**	**7,610.6**	**6,541.7**	**47.4**	**130.9**
TOTAL EQUITY AND LIABILITIES	**425.7**	**64,555.3**	**304.8**	**45,944.0**	**27,408.4**	**24,310.8**	**40.5**	**67.6**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate published by the NBK as at 30 June 2013, which was KZT 151.65 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the KZT/U.S.$ exchange rate published by the NBK as at 31 December 2012, which was KZT 150.74 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) In the course of the preparation of the 2011 Financial Statements, the Company restated certain comparative information for 2010 and made certain changes to the classification and grouping of comparative information for 2010 to comply with the classification and grouping used in the preparation of the 2011 Financial Statements. The 2010 information included in this Prospectus is taken from the 2011 Financial Statements and reflect such restatement and changes in classification and grouping and, accordingly, may differ from information published elsewhere. See "*Presentation of Financial and Certain Other Information—Restatement and Other Changes to Classification and Grouping*"

Consolidated Statement of Comprehensive Income

	For the six months ended 30 June			For the year ended 31 December				Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013[(1)] (unaudited)	2013 (unaudited)	2012 (unaudited)	2012[(2)]	2012	2011	2010[(3)]		
	(U.S.$ millions)	*(KZT millions)*		*(U.S.$ millions)*		*(KZT millions)*		*(%)*	
Revenue	92.1	13,894.0	10,550.7	349.8	52,153.6	33,623.2	15,862.0	31.7	55.1
Cost of Sales	(72.7)	(10,977.9)	(8,263.1)	(291.0)	(43,392.9)	(28,222.7)	(13,179.5)	32.9	53.8
Gross Profit	**19.3**	**2,916.1**	**2,287.6**	**58.8**	**8,760.7**	**5,400.5**	**2,682.5**	**27.5**	**62.2**
General and administrative expenses	(12.0)	(1,807.3)	(1,458.2)	(25.5)	(3,807.4)	(2,855.7)	(2,059.2)	23.9	33.3
Selling expenses	(3.5)	(531.0)	(299.7)	(5.6)	(841.8)	(640.5)	(312.3)	77.2	31.4
Other profit and losses	2.1	319.6	235.5	4.1	618.2	502.5	41.9	35.7	23.0
Foreign exchange (loss)/income, net	0.2	27.1	(14.0)	(0.1)	(21.3)	50.4	(19.4)	(293.6)	(142.3)
Share of profit in associates and joint ventures	(0.6)	(90.2)	(166.0)	6.7	997.2	727.5	476.5	(45.7)	37.1
Loss on financial liabilities at fair value through profit and loss	0.4	66.2	(16.5)	(0.1)	(21.1)	(28.4)	49.1	(501.2)	(25.7)
Finance income	1.8	277.7	449.3	2.1	314.8	79.5	26.2	(38.2)	296.0
Finance costs	(4.2)	(628.4)	(318.8)	(5.3)	(790.9)	(389.9)	(297.6)	97.1	102.8
Profit before income tax	**3.6**	**549.8**	**699.3**	**34.9**	**5,208.3**	**2,846.0**	**587.8**	**(21.4)**	**83.0**
Income tax expense	(0.5)	(76.6)	(97.5)	(4.5)	(670.4)	(581.9)	(61.9)	(21.4)	15.2
Profit for the period from continuing operations	3.1	473.2	601.7	30.4	4,538.0	2,264.1	525.9	(21.4)	100.4
Profit for the period from discontinued operations	—	—	—	0.1	20.5	—	—	—	100.0
Net profit and total comprehensive income for the year	**3.1**	**473.2**	**601.7**	**30.6**	**4,558.5**	**2,264.1**	**525.9**	**(21.4)**	**101.3**
Net profit and total comprehensive income attributable to:	3.1	473.2	601.7	30.6	4,558.5	2,264.1	525.9	(21.4)	101.3
Parent of the Company	2.7	406.2	529.7	30.3	4,522.3	2,149.5	496.5	(23.3)	110.4
Non-controlling interests	0.4	66.9	72.0	0.2	36.2	114.6	56.4	(7.1)	(68.4)

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate published by the NBK for the six months ended 30 June 2013, which was KZT 150.90 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the average KZT/U.S.$ exchange rate published by the NBK for 2012, which was KZT 149.11 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the KZT amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) In the course of the preparation of the 2011 Financial Statements, the Company restated certain comparative information for 2010 and made certain changes to the classification and grouping of comparative information for 2010 to comply with the classification and grouping used in the preparation of the 2011 Financial Statements. The 2010 information included in this Prospectus is taken from the 2011 Financial Statements and reflect such restatement and changes in classification and grouping and, accordingly, may differ from information published elsewhere. See "*Presentation of Financial and Certain Other Information—Restatement and Other Changes to Classification and Grouping*"

Key Financial Ratios

The following table sets forth key financial ratios used by Management in assessing the Group's performance. The financial ratios set forth in this table reflect the operations of the Group.

	As at and for the year ended 31 December		
	2012 (unaudited)	**2011 (unaudited)**	**2010 (unaudited)**
	(KZT millions, except for percentages)		
EBIT[1]	5,684.4	3,156.3	859.1
EBITDA[2]	6,305.6	3,801.2	1,457.3
EBITDA margin[3]	12.09	11.31	9.19
Debt (including current portion)[4]	12,805.5	3,611.5	2,483.1
Debt/EBITDA	2.03	0.95	1.70
Debt/Equity	0.61	0.21	0.17
Return on Assets[5]*(%)*	12.43	8.76	2.51
Return on Equity[6]*(%)*	23.88	14.15	4.27
Current ratio[7]*(%)*	1.71	2.09	2.26
EBIT/finance costs[8]*(%)*	7.19	8.10	2.89

Notes:

(1) The Company calculates EBIT, for any relevant period, as profit before income tax for such period, plus finance costs and minus interest income for such period. See "*Presentation of Financial and Certain Other Information—Financial Information*".

(2) EBITDA, for any relevant period, is EBIT for such period plus depreciation and amortisation for such period. See "*Presentation of Financial and Certain Other Information—Financial Information*".

(3) EBITDA margin, for any relevant period, is EBITDA divided by revenue. See "*Presentation of Financial and Certain Other Information—Financial Information*".

(4) Debt is the sum of loans, debt securities issued and finance lease obligations (non-current liabilities) and loans and current portion of long-term loans, current portion of debt securities issued and current portion of finance lease obligations (current liabilities).

(5) Return on assets, for any relevant period, is net income for the relevant period divided by average total assets.

(6) Return on equity, for any relevant period, is net income for the relevant period divided by average total equity.

(7) Current ratio is current assets divided by current liabilities.

(8) EBIT/interest expense is EBIT divided by finance costs.

BUSINESS

Overview

The Company was established under the laws of Kazakhstan on 16 April 2003 as National Company Kazakhstan Engineering Open Joint Stock Company, pursuant to Government Decree № 244 dated 13 March 2003. In May 2005, the Company was re-registered as Joint Stock Company Kazakhstan Engineering National Company in order to comply with the requirements of the JSC Law. As at the date of this Prospectus, Samruk-Kazyna, which is wholly owned by the Government, is the sole shareholder of the Company and the shares of the Company are managed by the Ministry of Defence pursuant to a Trust Management Agreement. See "*Management and Employees—Sole Shareholder and Trust Management*". The Company's registered office is 10 Kunayev Street, Esil District, Astana, 010000, Kazakhstan, the registration number of the Company is 13659-1901-AO and the business identification number (BIN) of the Company is 030440000693. The telephone number of the Company is +7 (7172) 61 19 01.

As the Company is a holding company, the Group performs its principal business activities through its subsidiaries, associates and joint venture companies. As at the date of this Prospectus, the Company has an ownership interest in 26 subsidiaries, associates and joint venture companies, of which the Company considers nine entities to be its key subsidiaries, associates and joint ventures.

The Group is the primary vehicle for the implementation of State policy in the fields of engineering and machinery-building, in particular, for the defence industry, and is the only machinery-building holding company in Kazakhstan with the status of "national company". The Group focuses on the development, manufacturing and servicing of goods for the defence, oil and gas, railway, aviation, ship transportation, agricultural and energy and power sectors.

The Group has entered into a number of associations and joint ventures with leading international companies, such as Aselsan Elektronik Sanayi Ve Ticaret A.Ş., Eurocopter S.A.S. and OJSC KAMAZ, in order to develop new lines of goods and services and to access and develop new technology and best international practices. The Group is considering expanding its export activities and establishing operations in other jurisdictions, primarily within the CIS.

The principal activities of the Group are:

- manufacturing machinery and equipment and providing services to satisfy the needs of the defence (including Kazakhstan's emergency, security and armed forces), oil and gas, railway, aviation, ship transportation, agricultural and energy and power sectors and conducting research and development activities to develop new machinery, equipment and services for such sectors;

- exporting the machinery and equipment manufactured by the Group;

- participating in the implementation of the State's policy in the areas of, among others, industrial development, machinery production and defence and, in this connection, participating in Government and other programmes relating to the development and manufacturing of defence and dual-use goods (goods for use in both the defence and civil sectors), the fulfilment of State orders for defence machinery, equipment and services and the increase and acceleration of technological development in the defence industry, including through the expansion, construction and upgrading of industrial facilities;

- forming and realising plans relating to the manufacturing and storage of sufficient reserves of machinery and equipment for the purpose of the defence of Kazakhstan in the event of an emergency; and

- conducting complex engineering services, including design works, conducting feasibility studies, purchasing equipment, managing construction, assembly and start-up projects, arranging financing for projects and training the Group's personnel.

According to Management estimates based on defence spending provided for in the State Budget, the Group serves more than 75% of the needs of Kazakhstan's armed forces, including for new equipment and the upgrading of existing equipment. Although the Group manufactures and repairs machinery and equipment for the defence sector, it does not develop, manufacture or fit arms or ammunitions to such machinery and equipment, although these may be added by its customers once they take delivery of the Group's products.

For the six months ended 30 June 2013, the Group's net profit was KZT 473.2 million, as compared to net profit of KZT 601.7 million for the six months ended 30 June 2012, reflecting a decrease of KZT 128.5 million, or 21.4%, This decrease in net profit was primarily due to the difference in timing between the receipt of orders and the receipt of revenues for such orders. For the year ended 31 December 2012, the Group's net profit was KZT 4,558.5 million, as compared to KZT 2,264.1 million for the year ended 31 December 2011 and KZT 525.9 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 2,294.4 million, or 101.3%, and KZT 1,738.2 million, or 330.5%, respectively. These year-on-year increases in net profit were primarily due to the expansion of the Group's business lines, particularly in the civil sector and the completion of certain modernisation and investment projects, which, in turn, led to an increase in production.

The most significant factor affecting changes in the Group's revenues and, accordingly, net profit, from period to period is the Group's Manufacturing Cycle, which, in particular, is characterised by the difference in timing between the receipt of orders and the recording of revenues. This timing differential arises principally as a result of three factors: (i) generally, orders are not consistently received throughout the course of a year, from year-to-year or from period-to-period; (ii) there is a significant time-lag between the receipt of an order and the completion of the machinery or equipment to fill that order and the receipt of final payment for the manufactured goods; and (iii) monies received as advanced payments in respect of an order are not recorded as revenue, and the final payment for an order is not received and recorded as revenue, until completion and delivery of the order and revenues derived from State orders are usually recognised closer to the year-end when the acceptance acts are signed between the Company and the relevant State ministry.

This Manufacturing Cycle generally characterises operations across the Group. Accordingly, the related timing impact often results in period-to-period fluctuations, which may be significant, in the revenues and net profits, from time to time, of certain of the Company's subsidiaries on a stand-alone basis, and, consequently, in most periods, in fluctuations in the revenues and net profits of the Group on a consolidated basis.

For the six months ended 30 June 2013, revenue from the production of goods for the civil sector comprised 61.0% of the Group's total revenue, revenue from the production of specialised and dual-purpose goods comprised 31.0% of the Group's total revenue and revenue from services comprised 8.0% of the Group's total revenue. For the year ended 31 December 2012, revenue from the production of goods for the civil sector comprised 27.3% of the Group's total revenue, revenue from the production of specialised and dual-purpose goods comprised 53.9% of the Group's total revenue and revenue from services comprised 18.8% of the Group's total revenue. See Note 5 to the Interim Financial Statements and Note 5 to the 2012 Financial Statements.

As at 30 June 2013, the Group had total assets of KZT 64,555.3 million, as compared to total assets of KZT 45,944.0 million as at 31 December 2012, KZT 27,408.4 million as at 31 December 2011 and KZT 24,310.8 million as at 31 December 2010. The continuously increasing size of the Group's balance sheet generally reflects the overall growth in the Group's business across the periods under review.

History

On 13 March 2003, Government Decree № 244 provided for the establishment of the Company and the transfer of the State's shareholdings in a number of machinery-building companies to its charter capital. On 16 April 2003, the Company was established as National Company Kazakhstan Engineering Open Joint Stock Company. The sole shareholder of the Company was the Ministry of Industry and Trade of Kazakhstan.

On 20 May 2005, the Company was re-registered as Joint Stock Company Kazakhstan Engineering National Company in order to comply with the requirements of the JSC Law.

On 24 October 2006, the shares of the Company were transferred to Kazakhstan Holding for Management of JSC State Assets Samruk pursuant to Government Decree № 1020 and on 3 November 2008, the shares of the Company were transferred to Samruk-Kazyna, following the merger of JSC Kazakhstan Holding for Management of State Assets Samruk and JSC Fund of Sustainable Development Kazyna.

On 20 July 2009, the management of the shares of the Company held by Samruk-Kazyna was transferred to the trust management of the Ministry of Industry and Trade.

Between April 2010 and December 2011, as a result of a number of capital increases, the Privatisation Committee obtained a 39.0% interest in the shares of the Company, while Samruk-Kazyna's shareholding was diluted to 61.0%.

On 4 June 2010, the management of the shares of the Company held by the Privatisation Committee was transferred to the trust management of the Ministry of Defence and on 15 June 2010, the management of the shares of the Company held by Samruk-Kazyna was transferred to the trust management of the Ministry of Defence.

On 19 November 2011, the shares in the Company held by the Privatisation Committee were transferred to Samruk-Kazyna.

Between 2003 and 2006, the Government resolved to transfer the ownership of the issued share capital of the majority of machinery-building plants in Kazakhstan to the Company, including, among others, JSC Petropavlovsk Heavy Machinery Building Plant ("**Petropavlovsk Plant**"), JSC Munaymash ("**Munaymash**"), JSC Tynys ("**Tynys**"), JSC S. M. Kirov Plant ("**Kirov Plant**") and JSC Uralsk Plant Zenit ("**Zenit**").

The Company has also entered into a number of associations and joint ventures with international companies, including:

- Eurocopter Kazakhstan Engineering LLP ("**Eurocopter KE**"), a joint venture with Eurocopter S.A. (a French helicopter manufacturing and maintenance company), in 2011 for the manufacturing of helicopters; see "*—Key Associates and Joint Ventures—Eurocopter Kazakhstan Engineering LLP*";

- Indra Kazakhstan Engineering LLP ("**IKE**"), an association with Indra Sistemas S.A. (a Spanish consulting, technology, innovation and talent company), in 2011 for the development and manufacturing of electronic radar devices and integrated security systems for border control; IKE's manufacturing plant is expected to become operational in December 2013;

- JSC Kamaz Engineering ("**Kamaz Engineering**"), an association with OJSC KAMAZ (a Russian company, which is the parent company of one of the largest automobile corporation in Russia), in 2005 for the manufacturing of heavy duty trucks; see "*—Key Associates and Joint Ventures—JSC Kamaz Engineering*";

- Kazakhstan Aselsan Engineering LLP ("**KAE**"), a joint venture with Aselsan Elektronik Sanayi Ve Ticaret A.Ş. (a Turkish defence company), in 2011 for the manufacturing of electro-optical devices; see "*—Key Investment Projects—Kazakhstan Aselsan Engineering LLP*"*;* and

- Thales Kazakhstan Engineering LLP ("**TKE**"), a joint venture with Thales S.A. (a French defence and aerospace group), in 2010 for the development and manufacturing of tactical radio devices and electronic equipment; TKE's manufacturing plant is expected to become operational in December 2013.

On 7 December 2012, the Company made its debut domestic bond issue in which it issued an aggregate principal amount of KZT 4,534 million of bonds, which are listed on the KASE and mature in November 2015. Between December 2012 and April 2013, including the first tranche, the Company issued an aggregate principal amount of KZT 14,849 million of such bonds in five tranches, which are consolidated to form a single series. See "*—Sources of Funding—Debt Securities Issued*".

Key Strengths

The Company believes that it benefits from the following strengths:

- ***Strong Government Support***

  As a 100% State-owned entity, which also plays a central role in the Government's policies to enhance Kazakhstan's defence capabilities, as well as the general industrial development of Kazakhstan, the Group benefits from strong support from the Government. The Group has historically received, and continues to receive, financial support from the Government through its sole shareholder (Samruk-Kazyna), and from the State Budget. This support includes concessional rate loans from Samruk-Kazyna, contributions from the State Budget, capital contributions from its shareholder (Samruk-Kazyna), Government grants for certain research and development activities and Government subsidies for certain investment projects, as well as the granting of free land plots and licences to conduct certain of the Group's activities in special economic zones and the provision to certain of the Company's subsidiaries of benefits under tax incentive programmes.

  As Kazakhstan's national company in the machinery–building sector and, in accordance with the Company's strategy, the Group co-operates closely with Government entities in the implementation of numerous Government development plans and initiatives. See "*—Participation in Government Programmes*". In addition, key members of the Government, including the Deputy Minister of Defence and the First Deputy Minister of Industry and New Technologies of Kazakhstan, are members of the Company's Board of Directors. The Chief Executive Officer also sits on a number of defence, oil and gas and technology industry committees, working groups and expert panels.

- ***State Strategic Importance***

  As the primary vehicle for the implementation of State policy in the fields of machinery-building, the Group is strategically important to the State. The Group is the only machinery-building holding company in Kazakhstan with the status of "national company". The Group's importance to the defence industry of Kazakhstan is demonstrated by the fact that, since 2010, the shares of the Company are managed by the Ministry of Defence, pursuant to the Trust Management Agreement.

  According to Management estimates based on defence spending provided for in the State Budget, the Group serves more than 75% of the needs of Kazakhstan's armed forces, including for new equipment and the upgrading of existing equipment. The Group receives orders for goods and services from the Ministry of Defence, the Ministry of Emergency Situations, the Ministry of Health of Kazakhstan and the Ministry of Internal Affairs of Kazakhstan. The Group's sales to the defence industry are also set out in Government programmes, such as the National Action Plan and the Business Road Map 2020 Programme. As at the date of this Prospectus, the Group has contractual orders for defence machinery and services amounting to KZT 41,471 million for 2013, KZT 36,100 million for 2014 and KZT 23,800 million for 2015, subject, in each case, to cancellation or adjustment in accordance with the terms of the relevant contract. See "*—Participation in Government Programmes*" and "*—Procurement and Contractual Framework*".

- ***Favourable Regulatory and Contractual Framework***

  A large number of the Group's customers are State entities and companies within the Samruk-Kazyna group; for the year ended 31 December 2012, revenue from sales to related parties accounted for 82.9% of the Group's total revenue. As a member of the Samruk-Kazyna group, the Group benefits from an exemption to standard procurement rules when it enters into contracts with other members of the Samruk-Kazyna group. This exemption provides a strong incentive for other members of the Samruk-Kazyna group to procure goods and services from the Group.

  The practice of the Government and Samruk-Kazyna is to promote long-term contracts between the Company and the State or companies within the Samruk-Kazyna group, which require State entities and companies within the Samruk-Kazyna group to provide significant prepayments in respect of goods and services purchased from the Group. This practice enables the Group to increase the profitability of its contracts, which, in turn, allows the Group to generate funds for the upgrading of its manufacturing facilities. As a result of this practice, as at the date of this Prospectus, the Group has contractual orders for civilian and defence machinery, equipment and services of KZT 70,550 million for 2013, KZT 49,441 million for 2014 and KZT 34,864 million for 2015, subject, in each case, to cancellation or adjustment in accordance with the terms of the relevant contract.

  In addition, a number of the Group's joint ventures, including Eurocopter KE and KAE, have been established in the Astana Zhana-Kala special economic zone, which permits the relevant joint venture to benefit from a favourable regulatory framework in the economic zone. In particular, companies operating in the Astana Zhana-Kala special economic zone benefit from certain corporate income tax, VAT, property tax and land tax exemptions, as well as a customs-free policy, pursuant to which goods imported into the special economic zone from outside of the Customs Union are exempt from otherwise applicable customs duties.

- ***Diversification of Products and Industries***

  The Company is a vertically-integrated holding company with interests in a number of machinery-building companies. The Group conducts activities across Kazakhstan and, as a result of its many subsidiaries, associates and joint ventures, is able to offer its customers a wide selection of goods and services to meet their requirements. Accordingly, while the Group has a relatively small pool of customers, the Group benefits from a diversification of risk with respect to its products and industries. Many of the Group's facilities are dual or multi-purpose facilities and these facilities are adaptable to manufacture different types of machinery and equipment to meet customer demand. For example, Tynys has recently diversified its product range to include the manufacturing of body armour and bullet-proof vests, Petropavlovsk Plant has expanded its traditional oil and gas focused activities to produce equipment for the railway industry and Zenit has expanded its traditional defence focused activities to produce equipment for the oil and gas industry. See "*—Key Subsidiaries—JSC*

Tynys", "*—Key Subsidiaries—JSC Petropavlovsk Heavy Machinery Construction Plant*" and "*—Key Subsidiaries—JSC Uralsk Plant Zenit*". The ability of the Group to offer different types of products to customers across the Group's operations enables the Group to realise certain efficiencies and economies of scale and to take advantage of certain cross-selling opportunities. As at the date of this Prospectus, the Company believes that there is no other company in Kazakhstan that has a similar profile and capabilities to compete with foreign companies across its operations.

- ***Experienced Management and Personnel***

  The Company's senior management team has extensive experience and technical expertise in the machinery-building industry and a number of the industries in which the Group's customers operate. See "*Management and Employees*".

  Many of the goods and services provided by the Group involve sophisticated technologies and engineering, know-how with related complex manufacturing and system integration processes. The Group has experienced and highly-skilled engineers to produce these goods and provide these services. The Company has also formed a number of associates and joint ventures, with international experts, which provide the Group with access to high levels of know-how and expertise. The Group believes that these partnerships will permit the Group to continue to offer a wide range of state-of-the-art goods and services to its customers.

- ***Strong Corporate Governance and Prudent Financial Policies***

  The Company has a culture of transparency and has implemented a number of corporate governance measures on a voluntary basis. The Company's Board of Directors has four independent directors, which is more than the number required under the JSC Law, and has established a number of committees to promote transparency and good governance, all of which are chaired by independent directors. See "*Management and Employees—Board of Directors*", "*Management and Employees—Board of Directors Committees*" and "*Management and Employees—Management Board Committees*".

  The Group has adopted prudential financial policies in line with Samruk-Kazyna policies relating to liquidity management, credit policy, risk management, expenses, budgeting and planning. In December 2012, the Company implemented a policy requiring all borrowings by any member of the Group to be made through the Company to permit Management to control the Group's borrowings.

Strategy

The Company's Development Strategy for 2011-2020 was approved by Government Resolution № 1028DSP dated 8 September 2011 (the "**Development Strategy**"). Pursuant to the Development Strategy, by 2020, the Company aims to be: (i) an increasingly effective holding company of machinery-building businesses across the key economic sectors of Kazakhstan; (ii) a market-leading engineering services provider in Kazakhstan, one of the leading engineering services providers in Russia and Central Asia and an engineering services provider with a significant presence in the Middle East, Africa and South-East Asia, through the increase of export operations and, potentially, the establishment of local operations in these jurisdictions; and (iii) a specialist in the design of state-of-the-art technology goods and a provider of expert services in the key economic sectors in which the Group operates. Pursuant to the Development Strategy, the Company also plans to be one of the world's top 50 most efficient machinery-building holding companies in terms of productivity by 2020.

On 4 November 2013, the Company's Board of Directors approved the Company's development strategy for 2013-2022, which will become effective upon the cancellation of Government Resolution № 1028DSO implementing the Development Strategy, which, as at the date of this Prospectus, is expected in the first quarter of 2014. The new development strategy contains no material adjustments to the Development Strategy described below.

The key elements of the Company's Development Strategy are:

- ***Focus on Core and Strategically-Important Businesses; Dispose of Non-Core Assets***

  The Group plans to encourage growth through increased investment in its strategically important business areas, with a focus on the following six key sectors:

  - *Defence:* the defence industry is identified as a strategically important industry in the National Action Plan, the Machinery-Building Development Programme (as defined below) and other Government policies and strategies; the Group plans to continue to design and develop new, and increase its manufacturing of, machinery and equipment for the defence industry, as well as to complete its ongoing investment projects, such as the projects for a manufacturing facility for electro-optical devices, an aircraft assembly and maintenance centre in Astana, a manufacturing facility for tactical radio devices and electronic equipment and a design and manufacturing facility for electronic intelligence and radar devices and integrated security systems for border control and to pursue additional investment projects relating to this sector (see "*—Key Investment Projects*" and "*—Capital Expenditures*");

  - *Oil and Gas*: the oil and gas industry is the most important customer of the Group's machinery-building business in terms of revenue from sales; demand for the machinery, equipment and other products manufactured by the Group, as well as for the well repair services it conducts, is expected to rise in the near future due to the increased oil production at the Tengiz, Karachaganak and Kashagan fields;

  - *Mining and Metallurgy*: the mining and metallurgy industry is identified as a strategically important industry for Kazakhstan in the Government's Machinery-Building Development Programme. In line with this programme, the Group plans to increase its manufacturing of mining and metallurgical machinery, including the manufacturing of self-propelled drilling and transportation equipment and spare parts;

  - *Railway*: the age of the existing railway machinery and rolling stock of JSC National Company Kazakhstan Temir Zholy ("**KTZ**"), as well as an increase in the volumes of cargo transported by rail through Kazakhstan, has resulted in increased demand for the Group's goods and services provided to the railway industry; to capitalise on this increased demand, the Group plans to increase its manufacturing of railway equipment, as well as to modernise and upgrade its facilities to provide additional technical services for the repair and upgrade of rail cars and rolling stock;

  - *Agriculture:* Management views the agricultural industry as a strong growth market for the Group as the majority of equipment currently used in the agricultural industry in Kazakhstan is imported; in particular, the Group intends to design and manufacture combine harvesters and spare parts to increase the revenue it currently receives from participants in the agricultural industry; and

  - *Energy and power:* the age of existing equipment used by power companies, as well as the general increased use of electronic devices, has increased demand for the Group's goods; in line with the Government's Machinery-Building Development Programme, the Group intends to increase its production of machinery for the energy and power industry.

  In addition, the Group plans to dispose of its non-core assets and is in the process of developing a strategy in respect of such disposals. The focus on the Group's core activities is in line with the Group's mandate under the various Government programmes in which it participates, as well as the development strategy of Samruk-Kazyna. Although, as at the date of this Prospectus, the Group's strategy for the disposal of non-core assets has not been finalised or approved, in the development of this strategy, and further to the recommendations of the Agency of the Republic of Kazakhstan for Competition Protection (the "**Competition Agency**"), in 2011 and 2012, the Group disposed of a number of significant interests in certain non-core businesses, including a 51% interest in Kazakhstan Engineering Distribution LLP, a 65% ownership interest in Kuzet LLP (now SpecMash Astana LLP, although the registration formalities for this disposal were not completed until August 2013) and a 49% ownership interest in Aviasnap LLP. See "*—Competition*".

- ***Development of New Facilities and Upgrading Existing Facilities***

  The Group plans to continue improving its manufacturing results and product lines by making substantial investments to further develop and modernise its facilities. As a result of a number of modernisation projects being conducted by the Company's subsidiaries, the Company expects an extended life-cycle, greater production capacities and lower maintenance and operating costs for certain of its facilities. The Group also plans to develop new facilities to take advantage of opportunities to develop new product lines and state-of-the-art technologies. The Group believes that such projects will enable the Group's operations to continue to be profitable within Kazakhstan, as well as competitive in the Group's current and potential export markets. See *"Risk Factors—Risk Factors relating to the Group's Business—Investment and Modernisation Projects"*, "—*Capital Expenditures*" and "—*Key Investment Projects*".

- ***Broadening and Enhancement of Engineering Business***

  Demand for engineering services in Kazakhstan's industrial sectors is currently estimated at U.S.$1.7 billion, according to research compiled by the Company, and Management expects that this demand will continue to grow. There is limited competition for the provision of engineering services in Kazakhstan, especially from Kazakhstan-based companies, which often do not have the expertise to implement large, complex "turn-key" projects.

  The Company plans to use its resources, size and technical expertise to take advantage of the current gap between demand and supply for engineering services in Kazakhstan and provide engineering services to develop new lines of products and promote infrastructure improvements.

  The Group's planned extended engineering offering is expected to build upon the engineering capabilities at the Group's existing research laboratories, which conduct work under patents for oil-extracting durables, agricultural devices and communication devices, as well as its mechanical engineering scientific research centre, which conducts research in shipbuilding and robotics for State authorities and other national companies. This enhanced line of business will also build on the Group's experience in implementing a number of investment turn-key projects for its own needs.

- ***Expansion into International Markets***

  The Group plans to capitalise on the success of its joint venture activities with international partners in Kazakhstan, as well as its limited export activities to date, to expand its activities to international markets, including Russia, other Central Asian countries, Africa, the Middle East and South-East Asia. Further operations outside of Kazakhstan are expected to be developed through both the expansion of the Group's existing operations and the formation of new joint ventures with world-leading machinery manufacturing companies. This expansion is expected to permit the Group to take advantage of higher international prices for its goods and services, increase its production lines and facilities, extend its operations outside of Kazakhstan and attract additional foreign investment.

Participation in Government Programmes

The policies of the Government have a significant effect on the Group. As Kazakhstan's national company in the machinery-building sector, and in accordance with the Company's strategy, the Group works closely with Government entities to implement various Government development plans and initiatives. In addition, the Government's policy of developing industrial activity in Kazakhstan is a driver for the growth of the Group's business, as well as in demand for the machinery and equipment manufactured by the Group.

The following are the most significant Government programmes and initiatives in which the Group participates:

- the Government's Development Programme for the Machinery-Building Industry, which covers the years 2010 to 2014 (the "**Machinery-Building Development Programme**");

- the Programme for the Accelerated Industrial and Innovation Development of Kazakhstan, which covers the years 2010 to 2014 (the "**Industrialisation Programme**");

- the National Action Plan for implementing the Message of the Head of State to the People of Kazakhstan dated 14 December 2012 "Strategy Kazakhstan—2050": a new political course of an established state" (the "**National Action Plan**");

- the Government's Strategic Development Plan of Kazakhstan up to 2020 (the "**Business Road Map 2020 Programme**"); and

- the Government's Damu-Ondiris Programme for Small and Medium-sized Entities in the Manufacturing Sector (the "**Damu-Ondiris Programme**").

Machinery Building Development Programme

In 2010, the Government adopted Decree № 1002 dated 30 September 2010, which introduced the Machinery-Building Development Programme. This programme aims to: (i) promote the upgrading of existing machinery-building facilities through the installation of state-of-the-art equipment; (ii) encourage the establishment of new companies for the production of equipment in compliance with international standards and at competitive prices; and (iii) develop co-operation and relations between Kazakhstan-based machinery-building companies. This programme is funded through the provision of finance leases by development institutions, such as JSC DBK-Leasing and JSC KazAgroFinance, as well as through internal cash flows and local and foreign investment. The principal sectors targeted by the Machinery-Building Development Programme are the oil and gas, mining and metallurgical, railway, agricultural, automobile, power and energy and engineering industries.

In line with the Machinery-Building Development Programme, a number of the Group's subsidiaries are implementing modernisation programmes. The Group also plans to increase local content, develop its engineering services offering and develop strategic infrastructure and machinery, such as helicopters, unmanned aerial vehicles and shipbuilding infrastructure. See "*—Strategy*" and "*—Key Investment Projects*".

Industrialisation Programme

The Industrialisation Programme, which was approved by Presidential Decree № 958 dated 19 March 2010, sets out investments of over KZT 6.5 trillion during the period from 2010 to 2014. The Industrialisation Programme consolidated all previously adopted State industrial programmes (over 50 in total) under one programme.

The Industrialisation Programme is a top public priority and its implementation is monitored by the President of Kazakhstan against performance indicators, such as growth in productivity and increases in total exports of goods and services.

The Industrialisation Programme mandates that the Group shall develop engineering services in Kazakhstan, increase the local content in its production processes, modernise its manufacturing facilities, increase its offering of agricultural goods and services (which will be subsidised through lease-financing from JSC KazAgroFinance), provide training for relevant personnel and develop strategic infrastructure and machinery, such as helicopters, unmanned aerial vehicles and shipbuilding infrastructure. As at the date of this Prospectus, the Group is implementing a number of investment projects to meet this mandate. In particular, four key subsidiaries of the Company, Munaymash, Kirov Plant, Petropavlovsk Plant and Tynys, are participating directly in the Industrialisation Programme through the implementation of modernisation projects, which are aimed at improving machinery manufacturing in Kazakhstan and fulfilling the objectives set for the Group as described above. See "*—Key Subsidiaries*".

National Action Plan

In connection with the implementation of the strategic principles set out in the President of Kazakhstan's address to the People of Kazakhstan on 14 December 2012, the President issued an edict adopting the National Action Plan. The National Action Plan sets a target for Kazakhstan to become one of the 30 most developed countries in the world by 2050. In particular, the National Action Plan mandates the development of new industries, including digital technology, nanotechnology and robotics industries, and encourages growth in domestic capabilities in such areas, including through the formation of joint ventures with international partners. Pursuant to the National Action Plan, the Group is exploring new technologies, such as nano-technologies and robotics, implementing a number of investment programmes to modernise its manufacturing facilities through state-of-the-art technology and increasing training opportunities available to its personnel, all with a view to expanding the machinery, equipment and services offered by the Group. The Group is also exploring development opportunities in the markets in which it operates and plans to increase the proportion of its sales derived from export activities. In particular, the Company is implementing investment projects to construct an Aviation Technology Centre in Astana and shipbuilding and repair facilities in the Caspian region of Kazakhstan in line with the strategic objectives of the National Action Plan. See "*—Key Investment Projects—Kazakhstan Aviation Industry LLP*" and "*—Key Investment Projects—Construction of Shipbuilding and Ship Repair Yards Project*". The Group is also expanding its offering of machinery and equipment for the civil sector, in particular, for the oil and gas and railway industries. See "*—Strategy*".

Business Road Map 2020 Programme

The Business Road Map 2020 Programme was approved by Government Resolution № 301 dated 13 April 2010. This programme aims to: (i) ensure sustainable and balanced growth of regional businesses in the non-energy sectors of the Kazakhstan economy; (ii) preserve existing and create new, permanent jobs by supporting new business initiatives; (iii) improve the Kazakhstan business sector generally; and (iv) support export-oriented industries. As part of this programme, Tynys received loans amounting to KZT 264 million from BTA Bank in May 2010, of which KZT 121.2 million was outstanding as at 30 June 2013, and Kirov Plant received loans amounting to KZT 65.2 million from JSC Halyk Bank ("**Halyk Bank**") between October 2010 and April 2011, which have since been fully repaid. All loans granted under this programme were used to refinance existing indebtedness.

Damu-Ondiris Programme

The Damu-Ondiris Programme, which was approved by Government Resolution № 1553 dated 9 October 2009, provides for KZT 18 billion in funds from the Distressed Assets Fund to be transferred to a number of commercial banks in Kazakhstan, for the subsequent partial financing of manufacturing projects conducted by small and medium-sized entities. The Banks participating in this programme are BTA Bank, Temirbank, Alliance Bank, Halyk Bank and JSC Kazcommercebank. Manufacturing projects in a number of sub-industries, including the manufacturing of motor vehicles, electrical equipment and other machinery-building and equipment manufacturing are covered by the programme. Under the terms of the programme, 70% of the financing for projects will come from funds from the Distressed Assets Fund, while the remaining 30% will be provided by the relevant bank. Under this programme, Tynys received financing from BTA Bank for its gas models development project in an aggregate amount of KZT 154 million in March and September 2012, of which KZT 123 million was outstanding as at 30 June 2013, and Petropavlovsk Plant refinanced an existing loan (of a principal amount of KZT 830 million) using financing from BTA Bank in an amount of KZT 750 million between September and December 2011, which has since been fully repaid.

Sources of Funding

The Group is primarily funded by concessional rate loans from Samruk-Kazyna, contributions from the State Budget, capital contributions from its shareholder (Samruk-Kazyna), Government grants for certain research and development activities and Government subsidies for certain investment projects. In addition, the Company has issued domestic bonds and obtained funding under several loan facilities and finance leases with local banks.

Since December 2012, subsidiaries of the Company have not been permitted to borrow directly from third parties and the Company acts as a centralised source of funding for the Group, obtaining borrowed funds and on-lending such funds to its subsidiaries, associates and joint ventures. All borrowings must be reviewed and approved by the Company's Credit Committee. See "*Management and Employees—Management Board Committees—Credit Committee*". Furthermore, the Company also uses certain of the funds that it receives by way of capital contributions from its shareholder to make capital contributions to its subsidiaries. See "*Share Capital, Sole Shareholder, Trust Manager and Related Party Transactions—Related Party Transactions*".

As at 30 June 2013, the outstanding principal amount of debt borrowed directly by subsidiaries of the Company prior to the change in the Group's funding policy was KZT 416 million. These funds comprise borrowings of Tynys and Petropavlovsk Plant from BTA Bank, which mature in 2016 and 2014, respectively.

Capital Contributions

To date, the Group has received significant contributions from the State Budget.

In 2010, the Company received a KZT 4,700 million capital contribution (including cash and assets) from Samruk-Kazyna, comprising amounts from the State Budget allocated under the special budgetary item entitled "Increase of the Charter Capital of Joint Stock Company Kazakhstan Engineering National Company". The State Budget provides for an aggregate amount of KZT 12,600 million to be granted from the State Budget to the Company by way of capital contributions between 2013 and 2015, which will be paid in two tranches, one in the last quarter of 2013 or the first quarter of 2014 and the other in the last quarter of 2014 or the first quarter of 2015. See Note 14 to the 2011 Financial Statements.

Material Borrowings

Loans from Samruk-Kazyna

In February 2013, the Company received a KZT 4,700 million loan from Samruk-Kazyna, which bears interest at a rate of 4.0% *per annum* and matures on 31 December 2013. As at 30 June 2013, the principal amount outstanding under this loan was KZT 4,700 million. As at the date of this Prospectus, the Company intends to repay this loan on maturity from the proceeds of the Notes.

In February 2012, the Company received a KZT 5,000 million loan from Samruk-Kazyna, which bears interest at a rate of 3.0% *per annum* and matures on 30 December 2013. As at 30 June 2013, the principal amount outstanding under this loan was KZT 2,500 million. As at the date of this Prospectus, the Company intends to repay this loan on maturity from the proceeds of the Notes.

See Note 16 to the Interim Financial Statements and Note 19 to the 2012 Financial Statements.

Loans from Kazakhstan Banks

In previous years, the Company has entered into loan facilities with Halyk Bank, BTA Bank, Temir Bank and JSC Eurasian Bank. As at 30 June 2013, the aggregate principal amount due to Kazakhstan banks was KZT 416 million under two separate loan facilities entered into by Tynys and Petropavlovsk Plant with BTA Bank, which mature in 2016 and 2014, respectively.

See "*Risk Factors—Risk Factors relating to the Group's Business—Access to Third-Party Funding*", Note 16 to the Interim Financial Statements, Note 19 to the 2012 Financial Statements and Note 17 to the 2011 Financial Statements.

Finance Leases with JSC DBK-Leasing

The Company has entered into finance lease arrangements with JSC DBK-Leasing in connection with the manufacturing of equipment. As at 30 June 2013, the aggregate value of minimum finance lease payments was KZT 1,070 million. See Note 18 to the Interim Financial Statements, Note 21 to the 2012 Financial Statements and Note 18 to the 2011 Financial Statements.

Debt Securities Issued

Between December 2012 and April 2013, the Company issued Tenge-denominated bonds in five tranches, which have been consolidated to form a single series, in an aggregate principal amount of KZT 14,849 million. The bonds are unsecured, bear interest at a rate of 5.0% and mature in November 2015. The bonds are listed on the KASE. As at 30 June 2013, the outstanding principal amount of bonds (excluding accrued interest and any discount on issued debt securities) was KZT 14,849 million. See Note 17 to the Interim Financial Statements and Note 20 to the 2012 Financial Statements.

Capital Expenditures

The following table sets forth certain information regarding the Group's total capital expenditures, including acquisitions through business combinations, for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013 (unaudited)	2012 (unaudited)	2012	2011	2010		
			(KZT thousands)			*(%)*	
Purchase of property, plant and equipment	760,053	542,320	3,217,227	717,633	537,589	40.1	348.3
Purchases of intangible assets	3,484	7,544	107,141	22,537	19,255	(53.8)	375.4
Advances paid for non-current assets	298,409	223,852	921,130	240,249	24,724	33.3	283.4
Acquisitions of investments in associates	—	—	—	1,319,595	87,261	—	(100.0)
Short term loans granted for investment purposes	—	883,328	2,200,000	307,000	50,000	(100.0)	616.6
Total Capital Expenditures	**1,061,946**	**1,657,044**	**6,445,498**	**2,607,014**	**718,829**	**(35.9)**	**147.2**

During the periods shown, the Group's most significant capital expenditures relate to modernisation and expansion projects conducted by its established subsidiaries, associates and joint ventures, as well as investments in new associates, joint ventures and investment projects. See "*—Key Subsidiaries*", "*—Key Associates and Joint Ventures*" and "*—Key Investment Projects*".

The Group plans to expand its machinery manufacturing capabilities in the future, in accordance with its development strategy and has incurred, and will continue to incur, capital expenditures for this purpose. Historically, the Group's capital expenditure requirements have been funded by the proceeds of shares issued to Samruk-Kazyna and borrowings from Samruk-Kazyna and Kazakhstan banks, as well as proceeds from the issuance of its Tenge-denominated bonds. The Group intends to continue to fund its capital expenditures from these sources, as well as from funding from the international market, including the proceeds of the Notes.

The following table sets forth the Group's budgeted capital expenditures for the years indicated:

	For the year ended 31 December					
	2013	2014	2015	2016	2017	2018
			(unaudited) *(KZT millions)*			
Total capital expenditures	2,606	15,769	16,250	15,250	15,530	15,570

The Group's main planned capital investment projects include modernisation and expansion projects by its established subsidiaries, associates and joint ventures, as well as new investment projects, including a design and manufacturing facility for electro-optical devices, an aircraft assembly and maintenance centre in Astana and an assembly and maintenance facility for unmanned aerial vehicles, a manufacturing facility for tactical radio devices and electronic equipment, a design and manufacturing facility for electronic intelligence and radar devices and integrated security systems for border control, as well as a shipbuilding and ship repair yard on the Caspian Sea.

The Group's main planned capital expenditures between 2013 and 2015 are expected to include:

- capital expenditures in connection with the modernisation and reconstruction of the Group's machinery-building facilities;
- capital expenditures for the construction of new machinery-building facilities; and

- capital expenditures for the introduction of modern plants and machinery, as well as the installation of innovative technologies, to allow the Group to achieve higher manufacturing and technology standards and to increase efficiencies across its operations.

Approximately 75% of the Group's planned capital expenditures are expected to be financed by the Government through contributions from the State Budget and capital contributions, as well as from the Group's own funds.

See "*—Key Subsidiaries*", "*—Key Associates and Joint Ventures*" and "*—Key Investment Projects*" for details of the Group's capital expenditure programmes.

The Group

The following table sets forth summary descriptions of the Company and the subsidiaries, associates and joint ventures reflected in the Group's Financial Statements (see Note 7 to the Interim Financial Statements):

Entity	Principal Activities	Ownership as at 30 June 2013 (%)
Company		
JSC Kazakhstan Engineering National Company....	The Company is a holding company of machinery-building businesses, which performs the majority of its principal business activities through its subsidiaries, associates and joint venture companies. See "—*The Company*".	—
Subsidiaries		
JSC 811 Motor-repair Plant KE..............................	JSC 811 Motor-repair Plant KE is engaged in the repair of vehicles, armoured machinery, motor assembly and power units, as well as the modernisation of such equipment.	100.0%
JSC 832 Motor-repair Plant KE..............................	JSC 832 Motor-repair Plant KE is engaged in the repair of vehicles.	100.0%
Kazakhstan Aviation Industry LLP ("**KAI**")..........	KAI expects to engage in the construction, maintenance and technical support of civilian and defence sector aircraft equipment at an Aviation Technology Centre to be built in Astana. See "—*Key Investment Projects—Kazakhstan Aviation Industry LLP*".	100.0%
JSC KazEng Electronics...	JSC KazEng Electronics is engaged in research and development activities in relation to electronics, designing and manufacturing automated control systems, as well as developing and implementing new electronic programmes and technologies.	100.0%
JSC S.M. Kirov Plant (Kirov Plant)	Kirov Plant is engaged in the manufacturing of defence and civilian communication devices, including navigation systems, radio stations, railway control consoles, oil and gas control units and automated machinery. See "—*Key Subsidiaries—JSC S. M. Kirov Plant*".	84.0%(1)
JSC Kirov Machinery Plant....................................	JSC Kirov Machinery Plant is engaged in the repair of submarine equipment, hydraulics and other automated machinery for marine vessels, pneumatic drills for extractive industries and spare parts for the railway industry.	97.7%
SpecMash Astana LLP	SpecMash Astana LLP (formerly Kuzet LLP(2)) is engaged in the provision of security services.	100.0%(3)
JSC Munaymash (Munaymash)..............................	Munaymash is engaged in the manufacturing of complex oil and gas machinery, as well as certain items for the agriculture and automobile industries. See "—*Key Subsidiaries—JSC Munaymash*".	52.0%
JSC Omega Instrument Making Plant	JSC Omega Instrument Making Plant is engaged in the manufacturing of water purification plants, parts and components for railways, digital telephone stations and spare parts, telephones and consumer goods.	99.0%
JSC Petropavlovsk Heavy Machinery Building Plant (Petropavlovsk Plant)	Petropavlovsk Plant is engaged in the manufacturing of equipment and parts for the oil and gas and railway industries, as well as the defence, petrochemical, chemical and energy and power industries, including special equipment for oil and pressure vessels, tools for the repair and maintenance of railways, parts for railway rolling stock and equipment for the modernisation of hardware for the defence industry. See "—*Key Subsidiaries—JSC Petropavlovsk Heavy Machinery*	99.8%

Entity	Principal Activities	Ownership as at 30 June 2013 (%)
	Construction Plant."	
JSC Research Institute Hydropribor........................	JSC Research Institute Hydropribor is engaged in designing, researching and manufacturing marine and river boats and other vessels and underwater vehicles, ground and aerial robots and equipment for the underwater inspection and repair of pipelines, oil rigs and underwater objects.	93.0%
JSC Semey Engineering (Semey Engineering)........	Semey Engineering is engaged in the repair, renovation and modernisation of armoured vehicles. See "*—Key Subsidiaries—JSC Semey Engineering*".	100.0%
JSC Semipalatinsk Machinery Construction Plant ..	JSC Semipalatinsk Machinery Construction Plant is engaged in the manufacturing of creeper tractors and manhole covers for wagons, as well as the repair of engineering equipment.	99.4%
JSC Tynys (Tynys)...	Tynys is engaged in the manufacturing of aviation machinery and equipment, as well as certain items for the medical, water, sewerage, railway, defence and oil gas industries. See "*—Key Subsidiaries—JSC Tynys*".	99.2%
JSC Uralsk Plant Zenit (Zenit)	Zenit is engaged in shipbuilding (including the development and manufacturing of equipment and vessels for the defence industry) and the manufacturing, servicing and repair of equipment for the oil and gas industry. See "*—Key Subsidiaries—JSC Uralsk Plant Zenit*".	95.4%
SRI Kazakhstan Engineering LLP...........................	SRI Kazakhstan Engineering LLP (formerly the United Centre of Armament Controlling Systems Introduction LLP(4)) is engaged in designing and developing new products for the Group's subsidiaries, such as the development of hi-speed boats, primarily for the defence industry. SRI Kazakhstan Engineering LLP also regulates the activities of the Group's laboratories. SRI Kazakhstan Engineering LLP is not involved in the design or development of arms and ammunitions.	100.0%
Associates		
Indra Kazakhstan Engineering LLP (IKE)	IKE expects to engage in the design and manufacturing of electronic intelligence and radar systems, as well as integrated security systems for the Caspian region.	49.0%
JSC Kamaz Engineering (Kamaz Engineering).......	Kamaz Engineering is engaged in the manufacturing of KAMAZ heavy duty trucks and specialised equipment. See "*—Key Associates and Joint Ventures—JSC Kamaz Engineering*".	25.0%
Kazakhstan Engineering Distribution LLP..............	Kazakhstan Engineering Distribution LLP is engaged in the sale of machinery.	49.0%
Kaz-ST Engineering Bastau LLP	Kaz-ST Engineering Bastau LLP is engaged in the sale of information technology related products.	49.0%
MBM-Kirovets LLP	MBM-Kirovets LLP is engaged in the manufacturing of equipment for the railway industry.	49.0%
OJSC Ulan..	OJSC Ulan is engaged in the manufacturing of equipment for the railway industry.	22.1%
JSC ZIKSTO ("**Ziksto**")	Ziksto is engaged in the repair and renovation of railway rolling stock and the manufacturing of equipment and spare parts for the railway industry, as well as certain items for the oil and gas and agriculture industries. See "*—Key Associates and Joint Ventures—JSC ZIKSTO*".	42.1%

Entity	Principal Activities	Ownership as at 30 June 2013 (%)
Joint Ventures		
Eurocopter Kazakhstan Engineering LLP (Eurocopter KE)	Eurocopter KE is engaged in the assembly, customisation, marketing, sale and maintenance of EC-145 helicopters and twin-engine helicopters. See "—*Key Associates and Joint Ventures— Eurocopter Kazakhstan Engineering LLP*".	50.0%
Kazakhstan Aselsan Engineering LLP (KAE).........	KAE expects to engage in the design and manufacturing of night vision equipment, day optics equipment, thermal vision equipment and turning lenses. See "—*Key Investment Projects—Kazakhstan Aselsan Engineering LLP*"	50.0%
Thales Kazakhstan Engineering LLP (TKE)...........	TKE expects to engage in the design and manufacturing of very high frequency and high frequency band radios for use in the defence sector and very high frequency band radios for civilian use, as well as information security systems.	50.0%

Notes:

(1) As a result of a capital increase in December 2003, the Company's shareholding, as a percentage of the total issued share capital of Kirov Plant, was diluted from 99.6% to 84.0%. The shares issued pursuant to this capital increase are, however, held as treasury shares. Accordingly, the Company continues to hold an effective ownership interest of 99.6% in Kirov Plant.

(2) The change of name of Kuzet LLP to SpecMash Astana LLP was effected in February 2013, although the registration formalities were not completed until August 2013.

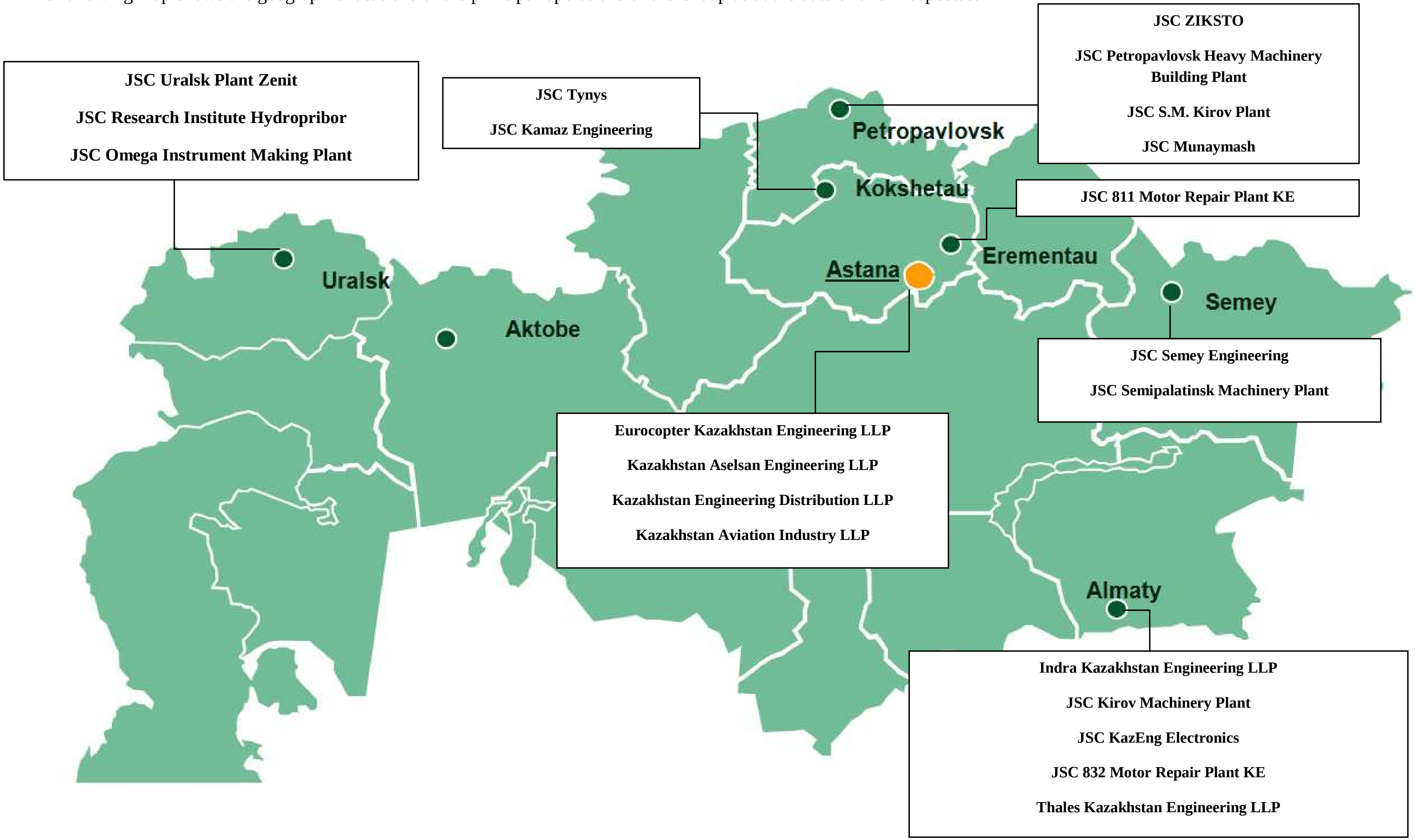
(3) The Company disposed of 65% of its interest in Kuzet LLP (now SpecMash Astana LLP) in 2012, however, the registration formalities were not completed until after 30 June 2013. As at the date of this Prospectus, the Company owns 35% of SpecMash Astana LLP.

(4) The change of name of The United Centre of Armament Controlling Systems Introduction LLP to SRI Kazakhstan Engineering LLP was effected in January 2013, although the registration formalities were not completed until after 30 June 2013.

See Note 7 to the Interim Financial Statements.

Location of the Group's Operations

The following map shows the geographic locations of the principal operations of the Group as at the date of this Prospectus:



The Company

Pursuant to the Company's charter (the "**Charter**"), the Company's purpose is to generate income from the ownership and management of its subsidiaries and affiliated companies, as well as its independent activities. The Company engages in the following activities:

- managing and developing its subsidiaries to ensure compliance with strategic goals and the implementation of strategic tasks set by the Company;
- participating in the implementation of the State's policy in the areas of, among others, industrial development, machinery production and defence and, in this connection, participating in Government and other programmes relating to the development and manufacturing of defence and dual-use goods (goods for use in both the defence and civil sectors), the fulfilment of State orders for defence machinery, equipment and services and the increase and acceleration of technological development in the defence industry, including through the expansion, construction and upgrading of industrial facilities;
- establishing and monitoring machinery manufacturing subsidiaries, associates and joint ventures, as well as subsidiary, associate and joint venture servicing companies, to provide goods and services to, among others, the defence, oil and gas, railway, aviation, ship transportation, agricultural and energy and power sectors and conducting research and development activities to develop new machinery, equipment and services for such sectors; and
- promoting increased export activities by the Group; and
- conducting complex engineering services, including design works, conducting feasibility studies, purchasing equipment, managing construction, assembly and start-up projects, arranging financing for projects and training the Group's personnel.

As the Company is a holding company, the Group performs the vast majority its principal business activities through its subsidiaries, associates and joint venture companies.

The Company receives certain revenue, as management commission, under management agreements entered into between the Company and each of its subsidiaries, respectively. These management agreements are typically renewed annually and provide for a management fee of approximately 1% of the relevant subsidiary's revenue, to be paid on a quarterly basis. Under the terms of such management agreements, the Company provides assistance to its subsidiaries in respect of, among other matters, the training of its personnel, assistance with, and review of, budgets and accounts, marketing and procurement matters and questions of corporate governance.

The Company also independently sources new business opportunities, as well as subcontractors for the Government in areas in which the Group does not have an existing expertise. The Company receives a fee for arranging these services and also uses the opportunity to increase its technical know-how using the subcontractors' expertise. In certain circumstances, as with Eurocopter KE, such activities have led to the development of new business lines for the Group, through the creation of joint venture companies. See "*—Key Associates and Joint Ventures*".

Key Subsidiaries

The Group's subsidiaries primarily service the defence, oil and gas, railway, aviation, ship transportation, agricultural and energy and power industries, with certain of the Group's subsidiaries providing machinery, equipment and services to a number of these industries.

A description of the principal activities of the Company's key subsidiaries, ordered by net profits for the six months ended 30 June 2013, is set out below.

JSC Tynys

Overview

Tynys is a joint stock company engaged in the manufacturing of aviation machinery and equipment, as well as certain items for the medical, water, sewerage, railway, defence and oil and gas industries. Its principal operating facilities are located in Kokshetau, in the north of Kazakhstan.

Tynys was incorporated in 1959 as the Factory of Oxygen-Breathing Equipment and was converted into a joint stock company in December 2003.

In 2003, the Company acquired a 99.2% interest in Tynys from the Government pursuant to Government resolution № 244 dated 13 March 2003.

As at the date of this Prospectus, the Company owns 99.2% of the shares of Tynys, while the remaining 0.8% of the shares are owned by a number of individuals, including employees and former employees of Tynys. The shares held by individuals, which are non-voting preferred shares, were originally offered to employees of Tynys as part of the privatisation programme introduced following the dissolution of the Soviet Union.

Recent Financial Results

The following tables set forth certain key financial information for Tynys as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	**As at 31 December**			**Change between 30 June 2013 and 31 December 2012**	**Change between 31 December 2012 and 2011**
		2012	**2011**	**2010**		
	(unaudited)		*(unaudited)*			
		(KZT thousands)			*(%)*	
Total assets	5,317,815	4,150,971	2,692,392	1,965,491	28.1	54.2
Total liabilities	3,124,125	2,335,510	1,215,265	1,038,062	33.8	92.2
Shareholders' equity	2,193,690	1,815,461	1,477,127	927,429	20.8	22.9

Statement of Comprehensive Income

	For the six months ended 30 June		**For the year ended 31 December**			**Change between the six months ended 30 June 2013 and 2012**	**Change between the year ended 31 December 2012 and 2011**
	2013	**2012**	**2012**	**2011**	**2010**		
	(unaudited)			*(unaudited)*			
			(KZT thousands)			*(%)*	
Revenue	2,997,182	1,978,923	4,660,940	3,809,073	2,609,489	51.5	22.4
Cost of sales	2,326,580	1,195,076	3,226,020	2,523,720	2,090,543	94.7	27.8
Operating expenses	276,733	227,012	589,839	445,872	235,480	21.9	32.3
Net profit	334,815	509,577	667,087	657,497	210,474	(34.3)	1.5

For the six months ended 30 June 2013, Tynys' revenues were KZT 2,997.2 million, as compared to KZT 1,978.9 million for the six months ended 30 June 2012, reflecting an increase of KZT 1,018.3 million, or 51.5%. This increase was primarily due to the diversification of Tynys' product range to include sales of body armour and new types of polyethylene pipes in the second half of 2012, which expanded Tynys' revenue base. For the six months ended 30 June 2013, Tynys' net profit was KZT 334.8 million, as compared to KZT 509.6 million for the six months ended 30 June 2012, reflecting a decrease of KZT 174.8 million, or 34.3%. This decrease primarily reflected the recording in the 2013 period of amortisation, depreciation and financing expenses relating to the ongoing modernisation projects at Tynys.

For the year ended 31 December 2012, Tynys' revenues were KZT 4,660.9 million, as compared to KZT 3,809.1 million for the year ended 31 December 2011 and KZT 2,609.5 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 851.8 million, or 22.4%, and KZT 1,199.6 million, or 46.0%, respectively. These increases were primarily due to increases in the sales of products for the aviation industry, including, in particular, in 2011, increased sales of polyethylene pipes, large diameter pipes and products. For the year ended 31 December 2012, Tynys' net profit was KZT 667.1 million, as compared to KZT 657.5 million for the year ended 31 December 2011 and KZT 210.5 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 9.6 million, or 1.5%, and KZT 447.0 million, or 212.4%, respectively. These increases primarily reflected the year-on-year increases in revenue, partially offset by increases in costs of sales and operating expenses in 2012 and 2011, in each case, as a result of higher sales volumes, in turn, primarily due to the success of Tynys' marketing programmes to attract additional business from Russian customers.

Principal Business Activities

Tynys is engaged in the manufacturing of aviation machinery and equipment, as well as certain items for the medical, water, sewerage, railway and oil and gas industries. Tynys is the only manufacturer for a number of items of aviation machinery in Kazakhstan and the CIS.

The main items manufactured by Tynys include spare parts and fittings for aircrafts, life support equipment for aircrafts (including fans and fire extinguishers), automated equipment for aircrafts (including relay and sensor valves), fire fighting equipment for aircrafts and medical equipment for aircrafts (including oxygen breathing apparatus, medical stretchers and aspirators), as well as control and measurement devices, manometers and flowmeters. In addition, Tynys manufactures gas-pressure head fittings, electro-assembly fastenings and contact systems for the railway industry and polyethylene pipes for the water, sewage and oil and gas industries. Tynys also manufactures certain agricultural items such as axes, shafts and apparatus for the spraying of chemicals on fields.

In 2011, Tynys became a participant in the Business Road Map 2020 Programme, pursuant to which Tynys received low cost financing in connection with its manufacturing of polythene pipes. See *"—Participation in Government Programmes—Business Road Map 2020* Programme*"*. Tynys has also received financing for its gas models development project under the Damu-Ondiris Programme. See *"—Participation in Government Programmes—Damu-Ondiris Programme"*.

Tynys has adapted its manufacturing facilities to diversify its offering of machinery and equipment to meet customer demand. In 2012, Tynys launched a project to develop body armour and bullet-proof vests for the defence industry in co-operation with Instalnet Sp z.o.o., a Polish manufacturing company. The body armour is designed and manufactured in accordance with the requirements of the North Atlantic Treaty Organisation. Although Tynys manufactures machinery and equipment for the defence industry, it does not develop, manufacture or fit arms or ammunitions to such machinery and equipment. Tynys is also engaged in the development of new medical equipment.

Tynys' manufacturing plant is located in Kokshetau in the Akmola region in the north of Kazakhstan. The facilities at Tynys' manufacturing plant are in compliance with ISO-9001-2008 standards of quality assurance.

As at the date of this Prospectus, Tynys is implementing the following modernisation and expansion projects:

- *Foundry Production for Development of Gas Models:* This project, which began in 2012 and is expected to be completed in 2015, aims to develop the range of items manufactured for the mining, defence, aviation, railway, oil and gas and consumer industries. The total cost of this investment project is expected to be KZT 625.7 million, of which KZT 563.1 million has been spent as at the date of this Prospectus. This project is partially funded by monies received under the Damu-Ondiris Programme in an amount of KZT 154 million and a KZT 199 million loan from the Company, which is, in turn, financed from the proceeds of the domestic bonds issued by the Company. The remainder of the funds for the project are expected to be provided from Tynys' own funds.

- *Development of Non-Woven Fabrics:* This project, which began in July 2013 and is expected to be completed in 2019, aims to develop goods using the latest innovative technologies and textiles made from natural and chemical fibres or filaments for, among others, medical, hygiene, household and industrial engineering purposes. The total cost of this investment project is expected to be approximately KZT 489.9 million, of which KZT 440.9 million has been spent as at the date of this Prospectus. This project is partially funded by a KZT 371 million loan from the Company, which is, in turn, financed from the proceeds of the domestic bonds issued by the Company. The remainder of the funds for the project are expected to be provided from Tynys' own funds.

Tynys sells its machinery and products in Kazakhstan, Belarus, Russia, Uzbekistan and Ukraine. Sales in Kazakhstan accounted for 54.4% of Tynys' total sales in the first six months of 2013, as compared to 41.1% in the year ended 31 December 2012, 51.3% in the year ended 31 December 2011 and 52.4% in the year ended 31 December 2010. Exports to Russia accounted for 46.6% of Tynys' total sales in the first six months of 2013, as compared to 58.8% in the year ended 31 December 2012, 48.5% in the year ended 31 December 2011 and 46.3% in the year ended 31 December 2010. The increase in sales within Kazakhstan in the first six months of 2013 is primarily due to the introduction of new product lines, including body armour and bullet-proof vests.

Key Suppliers

Tynys relies on the supply of metals, such as brass, bronze, aluminium and rolled metal products, as well as oil, from third parties, to manufacture its products.

Tynys' key suppliers are as follows:

- JSC "Metchiv" Kirov, a Russian company, which supplies rolled metal products for use in the manufacturing of spare parts for the aviation industry;

- JSC "UralPromSyryo", a Russian company, which supplies brass and aluminium for use in the manufacturing of spare parts for the aviation, medical and household industries;

- JSC Company "Inmarcon", a Russian company, which supplies rolled metal products for use in the manufacturing of spare parts for the aviation industry;

- JSC "Azimut service", a Kazakh company, which supplies steel sheets and steel circles for use in the manufacturing of spare parts for the aviation and industrial engineering industries;

- "Alfa metal" LLP, a Russian company, which supplies brass and bronze circles for use in manufacturing of spare parts for the aviation and medical industries; and

- "Promeco" LLP, a Russian company, which supplies oil lubricants for use in the manufacturing of automated equipment for the aviation industry.

Contracts with Tynys' suppliers are generally entered into at set prices and typically require Tynys to pay between 10% to 50% of the costs of the goods in advance. The balance is usually required to be paid within 30 to 60 business days following delivery of the goods. Contracts between Tynys and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Tynys with its suppliers are in accordance with the Procurement Rules (as defined below). See *"—Procurement and Contractual Framework*".

Key Customers

Tynys' key customers are companies within the Samruk-Kazyna group, in particular, KTZ (the national railway company of Kazakhstan) and companies within the JSC KazMunayGas ("**KMG**") group, including JSC KazTransOil (a transportation company, which owns and operates a major crude oil pipeline network in Kazakhstan) and JSC KazMunaiGas Exploration Production ("**KMG EP**") (KMG's principal onshore exploration and production subsidiary), as well as entities outside of the Samruk-Kazyna group, including JSC "Kazan Helicopter Plant" (a helicopter manufacturing company in Russia), JSC "Ulan-Ude Aviation Plant" (a aviation company in Russia), "Medintekhkaraganda" LLP (a medical services company in Kazakhstan), "Talap" LLP (a medical services company in Kazakhstan) and JSC "Medtekhnika" (a medical services company in Kazakhstan). Tynys also sells its products to a number of housing and communal services companies, companies in the construction and repair industry and individuals.

In the first six months of 2013, Tynys' top three customers accounted for 64.8% of Tynys' total sales. In the year ended 31 December 2012, Tynys' top three customers accounted for 56.8% of the Tynys' total sales.

Contracts with Tynys' customers are generally entered into on a long-term basis at set prices. The contracts typically require the customer to pay a portion of the purchase price in advance and, for State authorities, this prepayment will range between 100% and 75% of the price of the goods. Tynys' sales and contracts with customers are mainly conducted on an arm's length basis.

Pricing

Tynys' sets its prices according to the sum of the costs of production plus a profitability margin. These prices are set based on a protocol developed by Tynys' Economic Department and approved by the Deputy General Director for Economy, Finance and Commerce of Tynys.

Competition

As at the date of this Prospectus, there are no other Kazakhstan producers of machinery and equipment for the aviation industry, which is Tynys' principal line of business, nor any foreign producer that sells such products in the Kazakhstan market. In addition, there are no other Kazakhstan producers of the types of body armour manufactured by Tynys. Tynys is, however, subject to competition in the foreign markets in which it sells its machinery and goods, including from Russian manufacturing companies, such as JSC "Kungur Engineering Plant", JSC "Mytishchi Engineering Plant", JSC "Budennovsky Engineering Plant", JSC "Mari Engineering Plant" and JSC "Aviakor-Aircraft Factory". See *"Risk Factor—Risk Factors relating to the Group's Business—Competition"* and "*—Competition*".

Management

Tynys' Board of Directors is comprised of three members, including one member of the Company's Management Board (Adilbek Sarsembayev (Chairman)) and one Independent Director.

JSC Uralsk Plant Zenit

Overview

Zenit is a joint stock company engaged in shipbuilding (including the development and manufacturing of equipment and vessels for the defence sector) and the manufacturing, servicing and repair of equipment for the oil and gas industry. Its principal operating facilities are located in Uralsk in the west of Kazakhstan.

Zenit was founded in 1941 as a shipbuilding plant and was converted into a joint stock company in February 2004.

In March 2003, the Company acquired 95.4% of the shares in Zenit from the Government, pursuant to Government Decree № 244 dated 13 March 2003.

As at the date of this Prospectus, the Company owns 95.4% of the shares of Zenit, while the remaining 4.6% of the shares are owned by individuals, including employees and former employees of Zenit. The shares held by individuals, which are non-voting preferred shares, were originally offered to employees of Zenit as part of the privatisation programme introduced following the dissolution of the Soviet Union.

Recent Financial Results

The following tables set forth certain key financial information for Zenit as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	As at 31 December 2012	2011	2010	Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
	(unaudited)		*(unaudited)*			
		(KZT thousands)			*(%)*	
Total assets	4,162,091	4,059,912	5,485,845	3,470,006	2.5	(26.0)
Total liabilities	2,123,480	2,278,641	4,220,366	2,189,734	(6.8)	(46.0)
Shareholders' equity	2,038,611	1,781,271	1,265,479	1,280,272	14.4	40.8

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
			(KZT thousands)			*(%)*	
Revenue	3,162,526	942,843	4,448,463	3,380,712	2,770,472	235.4	31.6
Cost of sales	2,749,825	845,174	3,762,668	2,965,824	2,422,275	225.4	26.9
Operating expenses	108,044	79,853	194,110	159,999	98,622	35.3	21.3
Net profit	257,340	3,676	338,837	277,045	126,254	6,900.5	22.3

For the six months ended 30 June 2013, Zenit's revenues were KZT 3,162.5 million, as compared to KZT 942.8 million for the six months ended 30 June 2012, reflecting an increase of KZT 2,219.7 million, or 235.4%. This increase was primarily due to higher sales volumes as a result of continued sales under Zenit's recently-launched business line for new types of watercrafts and high-speed boats. For the six months ended 30 June 2013, Zenit's net profit was KZT 257.3 million, as compared to KZT 3.7 million for the six months ended 30 June 2012, reflecting an increase of KZT 253.7 million or 6,900.5%. This increase was primarily due to increased revenues due to the higher sales volumes discussed above, as well as the timing impact of Zenit's Manufacturing Cycle. See "*—Overview*".

For the year ended 31 December 2012, Zenit's revenues were KZT 4,448.5 million, as compared to KZT 3,380.7 million for the year ended 31 December 2011 and KZT 2,770.5 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 1,067.8 million, or 31.6%, and KZT 610.2 million, or 22.0%, respectively. These increases primarily reflected higher sales volumes as a result of the launch of, and continued sales under, Zenit's business line for new types of watercrafts and high-speed boats. For the year ended 31 December 2012, Zenit's net profit was KZT 338.8 million, as compared to KZT 277.0 million for the year ended 31 December 2011 and KZT 126.3 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 61.8 million, or 22.3%, and KZT 150.8 million, or 119.4%, respectively. These increases primarily reflected year-on-year increases in revenues, partially offset by year-on-year increases in costs of sales and operating expenses, in each case, due to the higher sales volumes described above.

Principal Business Activities

Zenit is engaged in shipbuilding (including the development and manufacturing of equipment and vessels for the defence sector) and the manufacturing, servicing and repair of equipment for the oil and gas industry.

The principal activities of Zenit for the defence industry include: (i) developing, manufacturing and repairing defence equipment, spare parts and special materials and equipment for such manufacturing, including installation, adjustment, use, storage, repair and servicing equipment; and (ii) developing, constructing, upgrading and repairing vessels for the defence sector (100m and 200m boats and 300 BARS vessels), civilian vessels and other watercrafts (with a capacity of up to 500 tonnes). Although Zenit builds ships and other vessels and manufactures machinery and equipment for the defence industry, it does not develop, manufacture or fit arms or ammunitions to such vessels, machinery and equipment.

The principal activities of Zenit for the oil and gas industry include designing, manufacturing, installing and repairing oil and gas processing equipment, gas burners and torches and explosion-proof electro-technical equipment, as well as performing maintenance works on certain specialised equipment.

Zenit's manufacturing plant is located in Uralsk in the west of Kazakhstan and covers approximately 20 hectares.

Key Suppliers

Zenit relies on the supply of metal, paint, hardware and pipes and fittings from third parties to manufacture its goods.

Zenit's key suppliers are:

- MTU Friedrichshafen GmbH, a German company, which supplies ship engines and other components for use in shipbuilding and repairs;
- JSC PKF "Hermes" Chelyabinsk, a Russian company, which supplies ferrous metals (such steel as iron) for use in shipbuilding;
- JSC "TKMetallKomplekt" Kamensk-Ural, a Kazakh company, which supplies non-ferrous metals (such as aluminum) for use in shipbuilding;
- JSC "TD Mezhgosmetiz" Orel, a Russian company, which supplies various hardware for use in shipbuilding;
- JSC "DV Kolor" St.-Petersburg, a Russian company, which supplies paint and paint materials for use in shipbuilding; and
- JSC "Plant of Layered Plastics" St.-Petersburg, a Russian company, which supplies pipes and fittings for use in shipbuilding.

Contracts with Zenit's suppliers are generally concluded on a long-term basis and typically require Zenit to pay 30% of the costs of the goods in advance. Contracts between Zenit and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Zenit with its suppliers are in accordance with the Procurement Rules. See "*—Procurement and Contractual Framework*".

Key Customers

Zenit's key customers are the Border Service of the National Security Committee of Kazakhstan, the Ministry of Defence and the Ministry of Emergency Situations.

In each of the first six months of 2013 and the year ended 31 December 2012, Zenit's sales to Kazakhstan State authorities (including, principally, the ministries and authorities referred to above) accounted for more than 90% of Zenit's total sales.

Contracts with Zenit's customers are generally entered into on a long-term basis at set prices. The contracts typically require the customer to pay 100% of the purchase price in advance. Zenit's sales and contracts with customers are mainly conducted on an arm's length basis.

Zenit expects its sales to companies operating in the oil and gas industry to increase in the near future due to the increased oil production at the Tengiz, Karachaganak and Kashagan fields, in particular, due to its proximity to the Karachaganak field. See "*—Strategy*". The Group is also developing an additional shipbuilding facility in the Caspian sea region in order to capitalise on the increased demand from the oil and gas industry. See "*—Key Investment Projects—Construction of Shipbuilding and Ship Repair Yards Project*".

Pricing

Zenit sets its prices according to the sum of the costs of production plus a profitability margin.

Competition

In respect of its shipbuilding activities, Zenit is subject to competition from shipbuilding companies in Russia, Ukraine and other CIS countries. There are no other Kazakhstan shipbuilding companies or companies selling the oil and gas machinery and other goods sold by Zenit in the Kazakhstan market. See *"Risk Factors—Risk Factors relating to the Group's Business—Competition"* and "*—Competition*".

Management

Zenit's Board of Directors is comprised of five members, including two Independent Directors.

JSC Munaymash

Overview

Munaymash is a joint stock company engaged in the manufacturing of complex oil and gas machinery, as well as certain items for the agriculture and automobile industries. Its principal operating facilities are located in Petropavlovsk in the north of Kazakhstan.

Munaymash was incorporated in November 1941 as a metalworking and production enterprise and was converted into a joint stock company in December 1993.

In November 2003, the Company acquired 90.0% of the shares in Munaymash from the Privatisation Committee. In 2006, additional shares in Munaymash were issued in order to fund an investment project to upgrade Munaymash's pipe manufacturing facilities. As a result of this capital increase, the Investment Fund of Kazakhstan acquired 42.6% of the shares of Munaymash and the Company's shareholding was diluted to 52.0%. In 2010, the Investment Fund of Kazakhstan sold its interest in Munaymash to "Elkam-Munaymash" LLP, a Russian company engaged in the manufacturing of components and spare parts for oil pumps.

As at the date of this Prospectus, the Company owns 52.0% of the shares of Munaymash and "Elkam-Munaymash" LLP owns 42.6% of the shares of Munaymash. The remaining shares in the Company, which constitute non-voting preferred shares, are held by employees and former employees of Munaymash and were originally offered to employees as part of the privatisation programme introduced following the dissolution of the Soviet Union.

Recent Financial Results

The following tables set forth certain key financial information for Munaymash as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	As at 31 December			Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
		2012	2011	2010		
	(unaudited)		*(unaudited)*			
	(KZT thousands)				*(%)*	
Total assets	3,159,466	2,556,040	1,094,712	1,119,811	23.6	133.5
Total liabilities	2,170,311	1,706,811	216,400	405,443	27.2	688.7
Shareholders' equity	989,155	849,229	878,312	714,368	16.5	(3.3)

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
	(KZT thousands)					*(%)*	
Revenue	961,328	1,077,080	1,669,930	1,950,651	1,653,748	(10.7)	(14.4)
Cost of sales	728,369	868,544	1,325,263	1,571,515	1,401,637	(16.1)	(15.7)
Operating expenses	81,149	84,773	210,695	175,699	165,727	(4.3)	19.9
Net profit	139,576	142,947	77,648	216,334	104,970	(2.4)	(64.1)

For the six months ended 30 June 2013, Munaymash's revenues were KZT 961.3 million, as compared to KZT 1,077.1 million for the six months ended 30 June 2012, reflecting a decrease of KZT 115.8 million, or 10.7%. This decrease primarily reflected the timing impact of Munaymash's Manufacturing Cycle. See "*—Overview*". For the six months ended 30 June 2013, Munaymash's net profit was KZT 139.6 million, as compared to KZT 142.9 million for the six months ended 30 June 2012, reflecting a decrease of KZT 3.3 million or 2.4%. This decrease primarily reflected lower financing expenses, as well as the timing impact of Munaymash's Manufacturing Cycle.

For the year ended 31 December 2012, Munaymash's revenues were KZT 1,669.9 million, as compared to KZT 1,950.7 million for the year ended 31 December 2011 and KZT 1,653.7 million for the year ended 31 December 2010, reflecting a decrease of KZT 280.7 million, or 14.4%, in 2012, as compared to 2011, and an increase of KZT 296.9 million, or 18.0%, in 2011, as compared to 2010. The decrease in 2012, as compared to 2011, and the increase in 2011, as compared to 2010, primarily reflected the timing impact of Munaymash's Manufacturing Cycle. See "*—Overview*". For the year ended 31 December 2012, Munaymash's net profit was KZT 77.6 million, as compared to KZT 216.3 million for the year ended 31 December 2011 and KZT 105.0 million for the year ended 31 December 2010, reflecting a decrease of KZT 138.8 million, or 64.1%, in 2012, as compared to 2011, and an increase of KZT 111.6 million, or 106.3%, in 2011, as compared to 2010. The decrease in 2012, as compared to 2011, primarily reflected increased marketing expenses incurred and decreased revenues in 2012, while the increase in 2011, as compared to 2010, primarily reflected increased revenues received in 2011.

Principal Business Activities

Munaymash is engaged in the manufacturing of complex oil and gas machinery, as well as certain items for the agriculture and automobile industries.

The main items manufactured by Munaymash for the oil and gas industry include down-hole sucker rod pumps, packers (3PV-M and 4PV-M), mobile measuring units (USM-4.0-400) and electrical centrifugal units. Munaymash also manufactures high-speed harrows for the agricultural industry and hydraulic lifts for KAMAZ 55111 trucks for the automobile industry.

Munaymash's manufacturing plant is located in Petropavlovsk in the north of Kazakhstan. The facilities at Munaymash's manufacturing plant are in compliance with ISO-9001-2008 quality assurance standards.

In 2012, Munaymash completed a large-scale modernisation project, during which new innovative equipment and an automated control system, in line with the highest international standard for design and production, was installed. The total cost of this modernisation project was KZT 1,390 million.

As at the date of this Prospectus, Munaymash sells almost all of its machinery in Kazakhstan. Since November 2011, an insignificant portion of Munaymash's machinery has also been exported to Russia, in particular, to the Siberian and Ural regions. Munaymash intends to increase the proportion of exports to these regions in the future.

Key Suppliers

Munaymash relies on the supply of piping and spare parts from third-party suppliers to manufacture its pumps and other goods.

Munaymash's key suppliers are:

- JSC "Elkam-neftemash Trading House", a Russian company, which supplies spare parts to be used in oil and gas pipes, piping and polished rods;

- PervouralskNovotrubniy Plant, a Russian company, which supplies seamless piping for use in spare parts for the manufacturing of rod pumps;

- "Azimut Service" LLP, a Kazakhstan company, which supplies which supplies spare parts for the manufacturing of rod pumps;

- DeloroSttellite Holding GmbH, a German company, which supplies carbide powder for use in dusting plungers; and

- "Eldorado Company", a Chinese company, which supplies materials for use in pump valves and to control carving works conducted on rod pumps.

Management believes that all contracts concluded by Munaymash with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Contracts with Munaymash's suppliers are generally entered into at set prices and typically require Munaymash to pay 30% to 50% of the cost of the goods in advance, with the balance to be paid within 30 to 60 working days following delivery of the goods. Contracts between Munaymash and its suppliers are mainly concluded on an arm's length basis.

Key Customers

Munaymash's key customers are companies within the Samruk-Kazyna group, in particular, companies within the KMG group, principally, JSC "OzenMunayGaz" (a wholly owned subsidiary of KMG EP, one of Kazakhstan's major upstream oil and gas companies, which operates the Uzen Field), JSC "Mangistaumunaygaz" (one of Kazakhstan's major upstream oil and gas companies, which operates the Kalamkas Field) and JSC "EmbaMunayGaz" (a wholly owned subsidiary of KMG EP, one of Kazakhstan's major upstream oil and gas companies, which operates the EMG Fields on the northern and eastern shores of the Caspian Sea), as well as other State-owned companies.

In the first six months of 2013, Munaymash's top three customers accounted for 98.5% of Munaymash's total sales. In the year ended 31 December 2012, Munaymash's top three customers accounted for 99.8% of Munaymash's total sales.

Contracts with Munaymash's customers are generally entered into on a long-term basis at set prices. The contracts typically require the customer to pay 30% of the purchase price in advance, with the balance to follow no later than 30 calendar days from receipt of an invoice following delivery of the goods. Munaymash's sales and contracts with its customers are mainly conducted on an arm's length basis.

Pricing

Munaymash sets the prices for its machinery in line with guidelines developed by Munaymash and approved by the Chairman of the Board of Directors of Munaymash in 2006 (the IN-RC-OBIP-01-2005 Instructions). Pursuant to these guidelines, the prices for machinery produced by Munaymash are established on the basis of the sum of the costs of production plus a profitability margin.

Competition

As at the date of this Prospectus, no other Kazakhstan machinery-building company manufactures the machinery sold by Munaymash and Munaymash is subject to limited competition from CIS-based producers, which sell their products in Kazakhstan, including Perm Petroleum Engineering Company, KubanNeftemash, Izhneftemash and Sarukhanskyi Plant "Aizerg". See *"Risk Factors—Risk Factors relating to the Group's Business—Competition"* and "*—Competition*".

Management

Munaymash's Board of Directors is comprised of five members, including one member of the Company's Management Board (Adilbek Sarsembayev (Chairman)) and two Independent Directors.

JSC S. M. Kirov Plant

Overview

Kirov Plant is a joint stock company engaged in the manufacturing of defence and civilian communication devices. Its principal operating facilities are located in Petropavlovsk in the north of Kazakhstan.

Kirov Plant was incorporated in 1928 as a radio equipment production plant.

In 1941, Kirov Plant moved to Petropavlovsk and, during the Second World War, began construction of various communication devices required for the Armed Forces of the USSR.

Following the Second World War, Kirov Plant focused its activities on the manufacturing of radio-receiving devices for the Armed Forces of the USSR, as well as receivers and stereotype recorders.

Kirov Plant was converted into a joint stock company in 2003.

In March 2003, the Company acquired 99.6% of the shares in Kirov Plant from the Privatisation Committee, pursuant to Government Decree № 244 dated 13 March 2003.

In December 2003, Kirov Plant issued additional shares by way of a capital increase, which diluted the Company's shareholding, as a percentage of the total issued share capital of Kirov Plant, from 99.6% to 84.0%. The shares issued in this capital increase are, however, held as treasury shares. Accordingly, the Company continues to hold an effective ownership interest of 99.6% in Kirov Plant.

As at the date of this Prospectus, the Company owns 99.6% of the shares of Kirov Plant (excluding treasury shares), while the remaining 0.4% of the shares (excluding treasury shares) are owned by individuals, including employees and former employees of Kirov Plant. The shares held by individuals, which are non-voting preferred shares, were originally offered to employees of Kirov Plant as part of the privatisation programme introduced following the dissolution of the Soviet Union.

Recent Financial Results

The following tables set forth certain key financial information for Kirov Plant as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	**As at 31 December**			**Change between 30 June 2013 and 31 December 2012**	**Change between 31 December 2012 and 2011**
		2012	**2011**	**2010**		
	(unaudited)		*(unaudited)*			
	(KZT thousands)				*(%)*	
Total assets	5,557,726	3,375,113	2,021,131	1,049,636	64.7	67.0
Total liabilities	4,361,534	2,405,481	1,235,957	507,799	81.3	94.6
Shareholders' equity	1,196,192	969,632	785,174	541,837	23.4	23.5

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
			(KZT thousands)			*(%)*	
Revenue	3,018,692	2,199,129	6,114,875	5,524,532	2,021,064	37.3	10.7
Cost of sales	2,485,758	1,813,939	5,034,381	4,571,263	1,723,096	37.0	10.1
Operating expenses	311,156	181,883	580,294	539,258	170,064	71.1	7.6
Net profit	137,302	152,671	329,317	288,473	90,662	(10.1)	14.2

For the six months ended 30 June 2013, Kirov Plant's revenues were KZT 3,018.7 million, as compared to KZT 2,119.1 million for the six months ended 30 June 2012, reflecting an increase of KZT 819.6 million, or 37.3%. This increase was primarily due to higher sales volumes as a result of the continued success of Kirov Plant's marketing programmes to attract additional business from customers in the railway and oil and gas industries. For the six months ended 30 June 2013, Kirov Plant's net profit was KZT 137.3 million, as compared to KZT 152.7 million for the six months ended 30 June 2012, reflecting a decrease of KZT 15.4 million, or 10.1%. This decrease primarily reflected the timing impact of Kirov Plant's Manufacturing Cycle, as well as increased operating expenses, principally increased marketing expenses, incurred in the 2013 period. See *"—Overview"*.

For the year ended 31 December 2012, Kirov Plant's revenues were KZT 6,114.9 million, as compared to KZT 5,524.5 million for the year ended 31 December 2011 and KZT 2,021.1 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 590.4 million, or 10.7%, and KZT 3,503.4 million, or 173.4%, respectively. These increases were primarily due to higher sales volumes as a result of the success of Kirov Plant's marketing programmes to attract additional business from customers in the railway, oil and gas and defence industries. For the year ended 31 December 2012, Kirov Plant's net profit was KZT 329.3 million, as compared to KZT 288.5 million for the year ended 31 December 2011 and KZT 90.7 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 40.8 million, or 14.2%, and KZT 197.8 million, or 218.1%, respectively. These increases primarily reflected the year-on-year increases in revenues, partially offset by the year-on-year increases in costs of sales, in each case, due to the higher sales volumes described above.

Principal Business Activities

Kirov Plant is engaged in the manufacturing of defence and civilian communications devices, including those required by the Ministry of Defence for the purposes of State defence and security activities. The main equipment manufactured by Kirov Plant include electro-technical devices, special communication devices for defence purposes (such as navigation systems and radio stations), other communication devices, safety, control and automated equipment systems for use in the railway and oil and gas industries and components for digital television. Although Kirov Plant manufactures equipment for the defence industry, it does not develop, manufacture or fit arms or ammunitions to such equipment.

Kirov Plant's manufacturing plant is located in Petropavlovsk in the north of Kazakhstan.

In 2003, Kirov Plant completed a rehabilitation and modernisation project, which led to increased output.

As at the date of this Prospectus, Kirov Plant is implementing an expansion project to build an extension to one of its manufacturing facilities in order to upgrade certain equipment. This project, which began in March 2013 and is expected to be completed by the end of November 2013, aims to increase Kirov Plant's levels of production, efficiency, output and competitiveness. The total cost of this project is expected to be KZT 167 million, all of which has been spent as at the date of this Prospectus. This project is funded by a loan from the Company, which is, in turn, financed from the proceeds of the domestic bonds issued by the Company.

Kirov Plant also plans to launch a project in 2014 to modernise its manufacturing facilities. The total cost of this investment project is expected to be KZT 1,689 million. This project is expected to be funded by contributions from the State Budget.

Key Suppliers

Kirov Plant relies on the supply of metal, radio devices components and cables from third parties to manufacture its communication devices.

Kirov Plant's key suppliers are:

- JSC "IRZ", a Russian company, which supplies blocks and knots for use in locomotive radio devices;
- JSC "Uralkomlekt", a Russian company, which supplies connectors (SNTs) for plugs and sockets for use in complex locomotive safety control and locomotive radio devices;
- JSC "MIGProm", a Russian company, which supplies rolled metals for use in all goods manufactured by Kirov Plant; and
- JSC "Chuvashkabel", a Russian company, which supplies conductors and cable for use in all goods manufactured by Kirov Plant.

Contracts with Kirov Plant's suppliers are generally entered into on an annual basis and typically require Kirov Plant to pay up to 50% of the costs of the goods in advance. Contracts between Kirov Plant and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Kirov Plant with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Key Customers

Kirov Plant's key customers are companies within the Samruk-Kazyna group, in particular, KTZ (the national railway company of Kazakhstan), JSC "Lokomotiv" (a railway rolling stock services company in Kazakhstan, which is a subsidiary of KTZ), JSC "Lokomotiv Kurastyru Zauyty" (a railway locomotives manufacturing company in Kazakhstan, which is a subsidiary of KMG EP (KMG's principal onshore exploration and production subsidiary) and "Kamkor Lokomotiv" (a railway locomotives repair and modernisation company in Kazakhstan), as well as entities outside of the Samruk-Kazyna group such as JSC "Kazteleradio" (a broadcasting operator in Kazakhstan) and the Ministry of Defence.

In the first six months of 2013, Kirov Plant's top three customers accounted for 59.4% of Kirov Plant's total sales. In the year ended 31 December 2012, Kirov Plant's top three customers accounted for 61.2% of Kirov Plant's total sales.

Contracts with Kirov Plant's customers are negotiated on a case-by-case basis. For Kirov Plant's key and long-standing customers, Kirov Plant has entered into long-term contracts, which typically require the customer to pay at least 30% of the purchase price in advance, with the balance to be paid no later than 30 working days from the date of acceptance of the goods. Kirov Plant's sales and contracts with customers are mainly conducted on an arm's length basis.

Pricing

Kirov Plant sets its prices according to the sum of the costs of production plus a profitability margin.

Competition

As at the date of this Prospectus, there are no other Kazakhstan producers of the communication devices or locomotive safety control systems manufactured by Kirov Plant, nor are there any foreign producers that sell such products in the Kazakhstan market. See "*Risk Factors—Risk Factors relating to the Group's Business—Competition*" and "—*Competition*".

As at the date of this Prospectus, Kirov Plant's products are not sold outside of Kazakhstan, although Kirov Plant plans to export certain products to China in the near future.

Management

Kirov Plant's Board of Directors is comprised of three members, including one member of the Company's Management Board (Adilbek Sarsembayev (Chairman)) and one Independent Director.

JSC Semey Engineering

Overview

Semey Engineering is a joint stock company engaged in the repair, renovation and modernisation of armoured defence vehicles, engines, cars and ships. Its principal operating facilities are located in Semey in the east of Kazakhstan.

Semey Engineering was founded in 1976 as an armoury repair plant.

In 2004, the Company acquired 100% of the shares of Semey Engineering from the Government, pursuant to Government Decree № 295 dated 10 March 2004.

Semey Engineering was converted into a joint stock company in 2005.

As at the date of this Prospectus, Semey Engineering is wholly owned by the Company.

Recent Financial Results

The following tables set forth certain key financial information for Semey Engineering as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	As at 31 December 2012	2011	2010	Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
	(unaudited)		*(unaudited)*			
	(KZT thousands)				*(%)*	
Total assets	10,141,449	4,871,291	941,151	590,047	108.2	417.6
Total liabilities	9,030,146	3,968,313	733,041	462,244	127.6	441.4
Shareholders' equity	1,111,303	902,978	208,110	127,803	23.1	333.9

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
	(KZT thousands)					*(%)*	
Revenue	325,182	488,822	6,031,823	1,708,132	33,362	(33.5)	253.1
Cost of sales	163,448	358,360	4,551,585	1,332,437	30,000	(54.4)	241.6
Operating expenses	326,021	125,398	554,337	216,088	75,150	160.0	156.5
Net profit	78,173	23,102	934,744	77,113	66,149	238.4	1,112.2

For the six months ended 30 June 2013, Semey Engineering's revenues were KZT 325.2 million, as compared to KZT 488.8 million for the six months ended 30 June 2012, reflecting a decrease of KZT 163.6 million, or 33.5%. This decrease primarily reflected the timing impact of Semey Engineering's Manufacturing Cycle. See "—*Overview*". For the six months ended 30 June 2013, Semey Engineering's net profit was KZT 78.2 million, as compared to KZT 23.1 million for the six months ended 30 June 2012, reflecting an increase of KZT 55.1 million, or 238.4%. This increase primarily reflected increased other income, due to the recognition as other income of amounts previously recognised as reserves in respect of certain contracts, partially offset by increased operating expenses, primarily due to increased marketing expenses incurred in the 2013 period.

For the year ended 31 December 2012, Semey Engineering's revenues were KZT 6,031.8 million, as compared to KZT 1,708.1 million for the year ended 31 December 2011 and KZT 33.4 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 4,323.7 million, or 253.1%, and KZT 1,674.8 million, or 5,020.0%, respectively. These increases were primarily due to higher sales volumes as a result of the introduction of new business lines and increased efficiencies resulting from the installation of new manufacturing equipment. For the year ended 31 December 2012, Semey Engineering's net profit was KZT 934.7 million, as compared to KZT 77.1 million for the year ended 31 December 2011 and KZT 66.1 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 857.6 million, or 1,112.2%, and KZT 11.0 million, or 16.6%, respectively. These increases primarily reflected the year-on-year increases in revenue, partially offset, in each case, by year-on-year increases in costs of sales and operating expenses, in each case, due to the higher sales volumes described above.

Principal Business Activities

Semey Engineering is engaged in the repair, renovation and modernisation of armoured vehicles. Semey Engineering's repair activities principally relate to the repair of armoured vehicles (including BMP-1 and BMP-2 vehicles), light armoured tractors (MTLB), prospecting and landing cars (BRDM-2) and armoured troop carriers (including BTR-60, BTR-70 and BTR-80 vehicles). Although Semey Engineering conducts repair, renovation and modernisation of armoured vehicles, it does not develop, manufacture or fit arms or ammunitions to such vehicles.

Semey Engineering's repair, renovation and modernisation plant is located in Semey in the west of Kazakhstan.

Semey Engineering is currently implementing a modernisation project in respect of its operating facilities. This project, which began in 2012 and is expected to be completed by the end of November 2013, aims to upgrade Semey Engineering's facilities to permit the overhaul and modernisation of all vehicles used by State authorities, as well as to permit the repair of heavy trucks used in the mining industry. The total cost of this project is KZT 2,800 million, all of which has been spent as at the date of this Prospectus. This project is being funded by a loan from the Company, which was, in turn, financed by the proceeds of the loans granted to the Company by Samruk-Kazyna. Semey Engineering expects to spend an additional KZT 2.0 billion on modernisation works by the end of 2014, which is expected to be funded by contributions from the State Budget.

All goods and services provided by Semey Engineering are for customers in Kazakhstan.

Key Suppliers

Semey Engineering relies on the supply of engines, spare parts and other vehicle components from third parties to perform its modernisation and repair works.

Semey Engineering's key suppliers are:

- Uralvagonzavod, a Russian company, which supplies compression and technical rubber spare parts for use in vehicle repair;
- Kamaz, a Russian company, which supplies vehicle engines and other components for use in vehicle repair;
- JSC "Uralskymotornyzavod", a Russian company, which supplies vehicles engines and other components for use in vehicle repair; and
- UKRSPETSEKSPORT Group, a Ukrainian company, which supplies various equipment, vehicle engines and other components (including radiators, monometers and filters) for use in vehicle repair.

Contracts with Semey Engineering's suppliers in Russia are concluded on standard terms and conditions, which typically require Semey Engineering to pay 100% of the costs of the goods in advance. Contracts with Semey Engineering's suppliers in Ukraine typically require Semey Engineering to pay 50% of the costs of the goods in advance. Contracts between Semey Engineering and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Semey Engineering with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Key Customers

Semey Engineering's key customers are the Ministry of Defence, the Ministry of Internal Affairs of Kazakhstan, the National Security Committee of Kazakhstan, the Republican Guard of Kazakhstan and the Ministry of Emergency Situations.

In the first six months of 2013, 96.2% of Semey Engineering's goods sold and services provided were sold directly by Semey Engineering to State authorities of Kazakhstan, including, principally, the ministries and other State authorities listed above. In the year ended 31 December 2012, 89% of Semey Engineering's goods sold and services provided were sold directly by Semey Engineering to State authorities of Kazakhstan, including, principally, the ministries and other State authorities listed above, while the remaining 11% of goods sold and services provided were sold to such State authorities indirectly through the Company.

Contracts with Semey Engineering's customers are generally entered into on a long-term basis at set prices. The contracts typically require the customer to pay 75% of the purchase price in advance. Semey Engineering's sales and contracts with customers are mainly conducted on an arm's length basis.

Pricing

Semey Engineering sets its prices according to a preliminary evaluation of the internal costs of the relevant repair or conversion work, which are amended upon receipt of the relevant vehicle to be repaired or modernised.

Competition

As at the date of this Prospectus, there are no other Kazakhstan or CIS companies that offer the goods and services provided by Semey Engineering in the Kazakhstan market. See *"Risk Factor—Risk Factors relating to the Group's Business—Competition"*.

Semey Engineering's goods and services are not sold or provided outside of Kazakhstan.

Management

Semey Engineering's Board of Directors is comprised of two members.

JSC Petropavlovsk Heavy Machinery Construction Plant

Overview

Petropavlovsk Plant is a joint stock company engaged in the manufacturing of equipment and parts for the oil and gas and railway industries, as well as the defence, petrochemical, chemical and energy and power industries. Its principal operating facilities are located in Petropavlovsk in the north of Kazakhstan.

Petropavlovsk Plant was incorporated as a joint stock company in March 2003. Petropavlovsk Plant's predecessor, a Baikonur infrastructure project supplier, was founded in 1961.

In March 2003, the Company acquired 99.8% of the shares of Petropavlovsk Plant from the Privatisation Committee pursuant to Government resolution № 244 dated 13 March 2003.

As at the date of this Prospectus, the Company owns 99.8% of the shares of Petropavlovsk Plant, while the remaining 0.2% of the shares are owned by employees of Petropavlovsk Plant.

Recent Financial Results

The following tables set forth certain key financial information for Petropavlovsk Plant as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	As at 31 December 2012	2011	2010	Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
	(unaudited)		*(unaudited)*			
	(KZT thousands)				*(%)*	
Total assets	4,678,639	4,463,624	3,924,316	3,326,059	4.8	13.7
Total liabilities	3,489,177	3,412,594	2,971,039	2,336,100	2.2	14.9
Shareholders' equity	1,189,462	1,051,030	953,274	891,857	13.2	10.3

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
	(KZT thousands)					*(%)*	
Revenue	2,551,137	2,340,023	5,670,365	2,774,172	2,435,779	9.0	104.4
Cost of sales	2,122,399	1,972,107	4,655,532	2,193,069	1,952,870	7.6	112.3
Operating expenses	284,142	229,770	588,399	464,681	369,192	23.7	26.6
Net profit	(50,213)	86,665	209,024	(11,834)	(111,096)	(157.9)	(1,866.3)

For the six months ended 30 June 2013, Petropavlovsk Plant's revenues were KZT 2,551.1 million, as compared to KZT 2,340.0 million for the six months ended 30 June 2012, reflecting an increase of KZT 211.1 million, or 9.0%. This increase was primarily due to higher sales volumes as a result of sales under new business lines for machinery for the energy and power industry, as well as continued increased demand for Petrovpavlovsk Plant's equipment and parts from customers in the oil and gas industry. For the six months ended 30 June 2013, Petropavlovsk Plant's net loss was KZT 50.2 million, as compared to net profit KZT 86.7 million for the six months ended 30 June 2012. The net loss for the six months ended 30 June 2013 and the net profit for the six months ended 30 June 2012 primarily reflected the timing impact of Petropavlovsk Plant's Manufacturing Cycle. See "*—Overview*".

For the year ended 31 December 2012, Petropavlovsk Plant's revenues were KZT 5,670.4 million, as compared to KZT 2,774.2 million for the year ended 31 December 2011 and KZT 2,435.8 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 2,896.2 million, or 104.4%, and KZT 338.4 million, or 13.9%, respectively. These increases were primarily due to higher sales volumes as a result of the introduction of new business lines for machinery for the energy and power industry, as well as increased demand for Petrovpavlovsk Plant's equipment and parts from customers in the oil and gas industry. For the year ended 31 December 2012, Petropavlovsk Plant's net profit was KZT 209.0 million, as compared to net losses of KZT 11.8 million for the year ended 31 December 2011 and KZT 111.1 million for the year ended 31 December 2010. The net profit in 2012 primarily reflected increased revenues, partially offset by increased costs of sales and operating expenses, in each case, as a result of the higher sales volumes described above. The net loss in 2011 and 2010 primarily reflected costs of sales and operating expenses, including financing and marketing expenses incurred in 2011 and 2010.

Principal Business Activities

Petropavlovsk Plant is engaged in the manufacturing of equipment and parts for the oil and gas and railway industries, as well as the defence, petrochemical, chemical and energy and power industries. Examples of items manufactured by Petropavlovsk Plant for the oil and gas industry include special equipment for oil and pressure vessels, including heavy machinery and equipment to perform capital and underground repairs to wells. Petropavlovsk Plant is the sole producer of customised equipment for repairs of oil and gas boring complexes (of up to 125 tonnes) in Kazakhstan.

In 1994, Petropavlovsk Plant expanded its traditional oil and gas focused activities to produce equipment for the railway sector and, as at the date of this Prospectus, Petropavlovsk Plant manufactures tools for the repair and maintenance of railways, as well as parts for railway rolling stock. Petropavlovsk Plant also manufactures other items, such as equipment for the modernisation of hardware for the defence industry. Although Petropavlovsk Plant manufactures equipment and parts for the defence industry, it does not develop, manufacture or fit arms or ammunitions to such equipment and parts.

Petropavlovsk Plant's manufacturing facilities are located in Petropavlovsk in the north of Kazakhstan. Petropavlovsk Plant's facilities include a construction centre, staffed with 90 personnel, which is engaged in the development of new products.

As at the date of this Prospectus, all equipment and products manufactured by Petropavlovsk Plant are manufactured in accordance with various Russian and international standards. Since 2003, Petropavlovsk Plant's manufacturing facilities have been certified as being in compliance with both ISO 9001-2009 and EN ISO 9001-2008 quality assurance standards. Petropavlovsk Plant's testing laboratories and the calibration of its measurement devices are also accredited pursuant to the State System of Technical Regulation of Kazakhstan for compliance with STRK ISO/IEC 17025-2001 standards.

As at the date of this Prospectus, Petropavlovsk Plant is implementing the following modernisation and expansion projects:

- *Production of Power Boiler Equipment:* This project, which began in 2012 and is expected to be completed in 2017, aims to develop new products, increase Kazakhstan local content in the manufacturing of such products and increase Petropavlovsk Plant's production rates and sales volumes. The total cost of this project is expected to be KZT 600 million of which KZT 138 million has been spent as at the date of this Prospectus. This project is funded by a loan from the Company, which was, in turn, financed from the proceeds of the domestic bonds issued by the Company.

- *Modernisation Project*: This project, which began in 2012 and is expected to be completed in 2017, aims to diversify Petropavlovsk Plant's production line, through products that are expected to be able to be produced following the planned upgrades to Petropavlovsk Plant's manufacturing facilities, and improve its competitiveness and profitability. The total cost of this project is expected to be KZT 250 million, of which KZT 156 million has been spent as at the date of this Prospectus. This project is funded by a loan from the Company, which was, in turn, financed from the proceeds of the domestic bonds issued by the Company.

- *Second Modernisation Project:* This project, which is expected to begin in 2014 and is expected to be completed in 2018, aims to upgrade and replace obsolete and worn-out equipment, facilitate the purchase and installation of modern processing equipment and construct new manufacturing facilities. The total cost of this project is expected to be KZT 1,500 million and to be funded by contributions from the State Budget.

Petropavlovsk Plant sells almost all of its machinery and other goods in Kazakhstan.

Following the completion of Petropavlovsk Plant's on-going modernisation and expansion projects, Petropavlovsk Plant intends to increase its export activities to include sales to the Siberian and Ural regions, as well as to Mongolia.

In 2001, Petropavlovsk Plant began working with *Société des Anciens Établissements L. Geismar* ("**Geismar**"), a French company, to manufacture new types of equipment for the repair and maintenance of railways in accordance with the highest international standards. In order to permit the manufacturing of this equipment, Geismar provides spare parts, such as engines, for use in railway cutting machines. This supply relationship has enabled the Company to diversify its product offering for the railway industry.

Key Suppliers

Petropavlovsk Plant relies on the supply of metals, engines, pumps and hydro-apparatus from third parties to manufacture its products.

Petropavlovsk Plant's key suppliers for its equipment and products are:

- "Azimut–Service" LLP, a Kazakh company, which supplies metal, including metal sheets, and pipe rolling equipment for use in lifting rigs for the drilling and repair of oil and gas wells;

- JSC "Manotom", a Russian company, which supplies manometers for measuring pressure for use in steam engines, lifting rigs and steam generators;

- JSC "Giroapporat", a Russian company, which supplies hydro apparatus for use in lifting rigs;

- JSC "Gruzovyeavtomobili-GruppaGaz", a Russian company, which supplies chassis for use in lifting rigs;

- JSC "Ashasvetotehnika", a Russian company, which supplies lighting engineering products for use in lifting rigs;

- "Kazelectromash" LLP, a Kazakh company, which supplies cable products for use in many of the goods manufactured by Petropavlovsk Plant;

- JSC "Prommash", a Kazakh company, which supplies engines and pumps for use in railway drilling machines; and

- JSC "Uraltermosvar", a Kazakh company, which supplies welding equipment for use in lifting rigs.

Contracts with Petropavlovsk Plant's suppliers are concluded on standard terms and conditions, which typically require Petropavlovsk Plant to pay 30% of the costs of the goods in advance. The balance is usually required to be paid within 30 to 60 working days following delivery of the goods. Contracts between Petropavlovsk Plant and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Petropavlovsk Plant with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Key Customers

Petropavlovsk Plant's key customers are companies within the Samruk-Kazyna group, in particular, companies in the KMG group, including KMG EP (KMG's principal onshore exploration and production subsidiary), "Pavlodar Oil Chemistry Refinery" LLP (the operator of the Pavlodar oil refinery in Kazakhstan), "Kazakhturkmunay" LLP (an oil and gas production services company in Kazakhstan) and JSC "Karazhanbasmunay" (an oil exploration company in Kazakhstan), and KTZ (the national railway company of Kazakhstan) and "Corporation "Kazakhmys" LLP (a natural resources company in Kazakhstan), as well as companies outside of the Samruk-Kazyna group, including "OilServicesCompany" LLP (an oil and gas services company in Kazakhstan), "KazakhStroyInvest" LLP (a contractor for a hydro-electric power station in Kazakhstan) and "KompletaciyaPlus" LLP (a contractor for a hydro-electric power station in Kazakhstan).

In the first six months of 2013, Petropavlovsk Plant's top three customers accounted for 69.2% of Petropavlovsk Plant's total sales. In the year ended 31 December 2012, Petropavlovsk Plant's top three customers accounted for 70.6% of the Petropavlovsk Plant's total sales.

Contracts with Petropavlovsk Plant's customers are generally entered into on a long-term basis at set prices. Contracts with customers for goods for the oil and gas, oil and energy and power industries typically require the customer to pay 50% of the price of the goods upon order and 40% of the price of the goods on the acceptance of delivery. The balance of the price is generally due within 60 to 90 calendar days following delivery, upon the signing of the reconciliation report for the goods. Contracts with customers for products for the railway industry typically require the customer to pay 30% of the price of the goods upon order and 70% upon acceptance of delivery of the goods. Contracts with customers for other types of products typically require the customer pay between 50% and 100% of the price of the goods upon order, with any balance to be paid upon acceptance of delivery of the goods. Petropavlovsk Plant's sales and contracts with customers are mainly conducted on an arm's length basis.

Pricing

Petropavlovsk Plant sets its prices according to the sum of the costs of production plus a profitability margin. Petropavlovsk Plant has developed a pricing manual for its goods and services, which, among other things, sets forth procedures for calculating the internal production costs and establishing the final price of the product, as well as detailing in what circumstances the price of the product may be varied.

Competition

As most items manufactured by Petropavlovsk Plant are customised, while certain Russian companies (such as "Portal" and "Neftemash") have the capacity to produce such products, Petropavlovsk Plant is not subject to extensive competition in Kazakhstan. See *"Risk Factors—Risk Factors relating to the Group's Business—Competition"* and "—*Competition*".

Management

Petropavlovsk Plant's Board of Directors is comprised of three members, including one member of the Company's Management Board (Adylgazy Bergenev (Chairman)) and one Independent Director.

Key Associates and Joint Ventures

The Group has established a number of joint ventures with international partners in order to leverage their respective expertise, obtain advanced technologies and establish a Kazakhstan presence in certain high-technology manufacturing activities. The Group's joint ventures do not carry any debt and are prohibited by their constitutional documents from incurring external borrowings.

A description of the principal activities of the Company's key associates and joint ventures, ordered by net profits for the six months ended 30 June 2013, is set out below.

JSC Kamaz Engineering

Overview

Kamaz Engineering is a joint stock company engaged in the manufacturing of heavy duty trucks. Its principal operating facilities are located in Kokshetau in the north of Kazakhstan.

Kamaz Engineering was incorporated in 2005 as a joint venture between the Company and members of the KAMAZ group. The KAMAZ group is one of the largest automobile corporations in the Russia.

Kamaz Engineering produced its first automobile in August 2005.

As at the date of this Prospectus, the Company owns 25.0% of the shares of Kamaz Engineering, while the remaining 75% of the shares are owned by JSC KAMAZ (the Russian parent company of the KAMAZ automobile group), 51% of the shares are directly owned and the remaining 24.0% of the shares are indirectly owned through its Kazakhstan-based subsidiary, "Torgovayacompaniya KAMAZ" LLP.

Pursuant to the terms of the constitutional documents of Kamaz Engineering, its profits and costs are shared between the joint venture partners *pro rata* to their respective ownership interests. In general, 50% of Kamaz Engineering's profits are distributed as dividends, while the remaining 50% are re-invested in Kamaz Engineering's activities.

Recent Financial Results

The following tables set forth certain key financial information for Kamaz Engineering as at the dates and for the periods indicated:

<u>Statement of Financial Position</u>

	As at 30 June 2013	As at 31 December 2012	2011	2010	Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
	(unaudited)		*(unaudited)*			
		(KZT thousands)			*(%)*	
Total assets	6,738,787	3,982,594	3,695,095	3,519,576	69.2	7.8
Total liabilities	5,044,841	2,723,921	2,501,758	2,567,795	85.2	8.9
Shareholders' equity	1,693,946	1,258,673	1,193,337	951,781	34.6	5.5

<u>Statement of Comprehensive Income</u>

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
			(KZT thousands)			*(%)*	
Revenue	3,133,542	3,148,252	8,733,237	6,922,677	6,050,888	(0.5)	26.2
Cost of sales	2,673,714	2,690,851	7,429,493	5,933,949	4,607,095	(0.6)	25.2
Operating expenses	297,163	289,909	627,865	697,209	371,797	2.5	(9.9)
Net profit	290,786	73,390	121,991	323,795	1,195,104	296.2	(62.3)

For the six months ended 30 June 2013, Kamaz Engineering's revenues were KZT 3,133.5 million, as compared to KZT 3,148.3 million for the six months ended 30 June 2012, reflecting a decrease of KZT 14.7 million, or 0.5%. This decrease primarily reflected the timing impact of Kamaz Engineering's Manufacturing Cycle. See "—*Overview*". For the six months ended 30 June 2013, Kamaz Engineering's net profit was KZT 290.8 million, as compared to KZT 73.4 million for the six months ended 30 June 2012, reflecting an increase of KZT 217.4 million, or 296.2%. This increase primarily reflected the timing impact of Kamaz Engineering's Manufacturing Cycle, as well as reduced marketing expenses in the 2013 period. See "—*Overview*".

For the year ended 31 December 2012, Kamaz Engineering's revenues were KZT 8,733.2 million, as compared to KZT 6,922.7 million for the year ended 31 December 2011 and KZT 6,050.9 million for the year ended 31 December 2010, reflecting year-on-year increases of KZT 1,810.6 million, or 26.2%, and KZT 871.8 million, or 14.4%, respectively. These increases were primarily due to higher sales volumes as a result of the launch of new business lines, as well as the installation of new automobile manufacturing equipment. For the year ended 31 December 2012, Kamaz Engineering's net profit was KZT 122.0 million, as compared to KZT 323.8 million for the year ended 31 December 2011 and KZT 1,195.1 million for the year ended 31 December 2010, reflecting year-on-year decreases of KZT 201.8 million, or 62.3%, and KZT 871.3 million, or 72.9%, respectively. The decrease in 2012, as compared to 2011, primarily reflected the recording in 2012 of amortisation, depreciation and financing expenses relating to the recently-completed modernisation project at Kamaz Engineering, while the decrease in 2011, as compared to 2010, primarily reflected the timing impact of Kamaz Engineering's Manufacturing Cycle. See "—*Overview*".

Principal Business Activities

Kamaz Engineering is engaged in the manufacturing of KAMAZ heavy-duty trucks and specialised equipment with a product range spanning 30 types of components and equipment for use by the defence and civil sectors, including spare parts for automobiles. Trucks and equipment manufactured by Kamaz Engineering are used in a range of industries, including the energy and power, road construction and agricultural industries. Although Kamaz Engineering manufactures heavy-duty trucks and specialised equipment for the defence industry, it does not develop, manufacture or fit arms or ammunitions to such trucks or equipment.

According to information published by the KAMAZ group, in 2012, the KAMAZ group manufactured more than 51,000 trucks, of which more than 45,000 were sold in Russia. In addition, in 2012, the KAMAZ group was the leading manufacturer of heavy duty trucks in each of Kazakhstan, Azerbaijan, Turkmenistan and Ukraine.

Kamaz Engineering's manufacturing plant is located in Kokshetau in the north of Kazakhstan and comprises an industrial plant with an assembly shop, welding shop and paint shop.

As at the date of this Prospectus, Kamaz Engineering is planning to implement a modernisation project to upgrade its manufacturing facilities. This project, which is expected to begin in March 2014 and to be completed in June 2015, aims to upgrade Kamaz Engineering's facilities through the purchase of new high-technology equipment for metal mechanical processing activities, which will permit Kamaz Engineering to manufacture components for certain specialised pieces of equipment. The total cost of this investment project is expected to be KZT 238 million and to be funded by Kamaz Engineering's own funds.

As at the date of this Prospectus, Kamaz Engineering sells all of its trucks and equipment in Kazakhstan. The consent of JSC KAMAZ is required for Kamaz Engineering to export goods outside of Kazakhstan and, as at the date of this Prospectus, Kamaz Engineering has no plans to export its products outside of Kazakhstan. Although it exported certain goods to Russia in 2010 to meet the demand for KAMAZ group products in Russia.

Key Suppliers

Kamaz Engineering relies on the supply of automobile parts, oil, fuels and lubricants from third parties to manufacture its goods.

Kamaz Engineering's key suppliers are:

- JSC "VTK KAMAZ", a Russian company, which supplies components for automobiles for use in automobile manufacturing;
- JSC "Nefaz", a Russian company, which supplies components for the production of tipper installation and platforms for use in automobile manufacturing;
- Tynys, a Group company, which supplies receivers, fire extinguishers and other automobile parts (see "*—Tynys*");
- "Argymak" LLP, a Kazakh company, which supplies oils, fuels and lubricants for use in automobile manufacturing;
- Helios LLP, a Kazakh company, which supplies diesel fuel and petrol for use in automobile manufacturing;
- Trade house TMK, a Kazakh company, which supplies oils, fuels and lubricants for use in automobile manufacturing;
- Alisa+ LLP, a Kazakh company, which supplies accumulators for automobiles; and
- "Kamaz" autocentres, based in Kazakhstan, which supply pre-sales services and general maintenance for the automobiles manufactured by Kamaz Engineering throughout their warranty period.

Contracts with Kamaz Engineering's suppliers are generally concluded on an annual basis and typically require Kamaz Engineering to pay up to a certain percentage of the costs of the goods in advance. In accordance with a corporate order made by JSC KAMAZ, any prepayment cannot exceed KZT 1.2 million, unless the prepayment is secured by collateral. Contracts between Kamaz Engineering and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Kamaz Engineering with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Key Customers

Kamaz Engineering's key customers are State entities, including the Ministry of Defence, the Committee of Internal Military Forces of the Ministry of Internal Affairs, the National Security Committee of Kazakhstan and the Ministry of Emergency Situations and companies within the Samruk-Kazyna group, principally KTZ (the national railway company of Kazakhstan), as well as other entities outside the Samruk-Kazyna group, including Dena Rekhsav LLP (a road and bridge construction company in Kazakhstan) and JSC Munaykurylysservis (a construction company in Kazakhstan). Kamaz Engineering also sells heavy duty trucks to individuals in Kazakhstan through the KAMAZ group's retail network.

In the first six months of 2013, Kamaz Engineering's top three customers accounted for 58.3% of Kamaz Engineering's total sales. In the year ended 31 December 2012, Kamaz Engineering's top three customers accounted for 41.1% of Kamaz Engineering's total sales.

Contracts with Kamaz Engineering's customers are generally entered into on an annual basis at set prices. The contracts typically require the customer to pay 100% of the purchase price in advance. Kamaz Engineering's sales and contracts with customers are mainly conducted on an arm's length basis.

Pricing

In accordance with the provisions of the joint venture agreement between the Company and JSC KAMAZ, the products sold by Kamaz Engineering are priced in accordance with the same pricing model as those sold by the rest of the KAMAZ group, net of taxes. Prices are determined according to the sum of the costs of production plus a profitability margin.

Competition

In Kazakhstan, Kamaz Engineering faces competition from JSC "MAZ" (Belarus), an automobile manufacturer operating in Kazakhstan. Kamaz Engineering is also subject to competition from international automobile manufacturers, including JSC "KRAZ" (Russia), JSC "URAL Motor Vehicles Plant" (Russia) and JSC "FAW" (China), whose products are imported in Kazakhstan. See *"Risk Factors—Risk Factors relating to the Group's Business—Competition"* and "*—Competition*".

Prior to the establishment of Kamaz Engineering in 2005, the KAMAZ group sold trucks into Kazakhstan through other KAMAZ group entities. Accordingly, the Group views the historical presence of the KAMAZ brand in Kazakhstan as a competitive advantage over other automobile manufacturers.

Management

Kamaz Engineering's Board of Directors is comprised of six members, including two Independent Directors.

JSC ZIKSTO

Overview

Ziksto is a joint stock company engaged in the repair and renovation of railway rolling stock and the manufacturing of freight wagons, wheels, non standard equipment for repair plants and spare parts for the railway industry, as well as certain items for the oil and gas and agriculture industries. Its principal operating facilities are located in Petropavlovsk in the north of Kazakhstan.

Ziksto's predecessor was founded in 1895 as a forging, copper foundry and machine shop in Moscow, Russia. In 1941, it relocated to Petrovpavlovsk in Kazakhstan and was renamed as State Enterprise V.V. Kujbyshev Machinery Building Factory. Ziksto was established through the transformation of State Enterprise V.V. Kujbyshev Machinery Building

Factory into a closed joint stock company in 1993 as part of the Government's privatisation programme introduced following the dissolution of the Soviet Union. Ziksto was re-registered as a joint stock company in 2003.

In December 2003, the Company acquired 90.4% of the shares of Ziksto from the Privatisation Committee, the remaining 9.6% of the shares of Ziksto, which are non-voting preferred shares, were held by employees and former employees of Ziksto and were originally offered to employees as part of the privatisation programme.

In November 2004, the Company sold 51.0% of the shares of Ziksto to Transremmash LLP, a railway wagon leasing company in Kazakhstan. In 2006, additional shares in Ziksto were issued as a result of which, the Company's shareholding increased to 42.1% and Transremmash LLP's shareholding increased to 54.5%.

As at the date of this Prospectus, the Company owns 42.1% of the shares of Ziksto and Transremmash LLP owns 54.5% of the shares of Ziksto. The remaining 3.5% of the shares of Ziksto are non-voting preferred shares held by employees and former employees of Ziksto.

Pursuant to the constitutional documents of Ziksto, the profits and costs of Ziksto are shared between the Company and Transremmash LLP *pro rata* to their respective ownership interests. In general, 50% of Ziksto's profits are distributed as dividends, while the remaining 50% are re-invested in Ziksto's activities.

Recent Financial Results

The following tables set forth certain key financial information for Ziksto as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	**As at 31 December**			**Change between 30 June 2013 and 31 December 2012**	**Change between 31 December 2012 and 2011**
		2012	**2011**	**2010**		
	(unaudited)		*(unaudited)*			
		(KZT thousands)			*(%)*	
Total assets	3,029,964	3,022,604	3,656,203	5,864,107	0.2	(17.3)
Total liabilities	1,424,610	1,361,049	1,651,253	4,142,295	4.7	(17.6)
Shareholders' equity	1,605,354	1,661,555	2,004,950	1,721,812	(3.4)	(17.1)

Statement of Comprehensive Income

	For the six months ended 30 June		**For the year ended 31 December**			**Change between the six months ended 30 June 2013 and 2012**	**Change between the year ended 31 December 2012 and 2011**
	2013	**2012**	**2012**	**2011**	**2010**		
	(unaudited)			*(unaudited)*			
			(KZT thousands)			*(%)*	
Revenue	1,070,350	1,546,231	4,815,311	9,707,616	4,652,883	(30.8)	(50.4)
Cost of sales	980,579	1,361,510	4,381,225	8,349,803	3,749,644	(28.0)	(47.5)
Operating expenses	188,784	228,081	515,843	742,326	517,712	(17.2)	(30.5)
Net profit	(141,929)	(118,899)	(173,291)	425,417	283,678	19.4	(140.7)

For the six months ended 30 June 2013, Ziksto's revenues were KZT 1,070.4 million, as compared to KZT 1,546.2 million for the six months ended 30 June 2012, reflecting a decrease of KZT 478.9 million, or 30.8%. This decrease primarily reflected the timing impact of Ziksto's Manufacturing Cycle. See "*—Overview*". For the six months ended 30 June 2013, Ziksto's net loss was KZT 141.1 million, as compared to KZT 118.9 million for the six months ended 30 June 2012, reflecting increased loss of KZT 23.0 million, or 19.4%. This increase primarily reflected the timing impact of Ziksto's Manufacturing Cycle, which resulted in decreased revenues and costs of sales in the 2013 period.

For the year ended 31 December 2012, Ziksto's revenues were KZT 4,815.3 million, as compared to KZT 9,707.6 million for the year ended 31 December 2011 and KZT 4,652.9 million for the year ended 31 December 2010, reflecting a decrease of KZT 4,892.3 million, or 50.4%, in 2012, as compared to 2011, and an increase of KZT 5,054.7 million, or 108.6%, in 2011, as compared to 2010. The decrease in 2012, as compared to 2011, was primarily due to a decrease in demand for Ziksto's equipment from customers in the mining sector, while the increase in 2011, as compared to 2010, primarily reflected higher sales volumes, in turn, due to an increase in demand for Ziksto's equipment from customers in the railway and mining sectors. For the year ended 31 December 2012, Ziksto's net loss was KZT 173.3 million, as compared to net profit of KZT 425.4 million for the year ended 31 December 2011 and net profit of KZT 283.7 million for the year ended 31 December 2010. The net loss for the year ended 31 December 2012 was primarily due to lower sales volumes, as a result of the decreased demand described above, the recording in 2012 of increased amortisation and depreciation costs relating to the grain wagon production modernisation project at Ziksto and increased financing expenses relating to a loan to cover working capital requirements. The increase of KZT 141.7 million, or 50.0%, in net profit for the year ended 31 December 2011, as compared to the year ended 31 December 2010, primarily reflected the year-on-year increases in revenues, partially offset by increased costs of sales in 2011, in each case, as a result of the higher sales volumes described above.

Principal Business Activities

Ziksto is engaged in the repair and renovation of railway rolling stock and the manufacturing of freight wagons, wheels, non-standard equipment for repair plants and spare parts for the railway industry, as well as certain items for the oil and gas and agriculture industries.

The main items manufactured by Ziksto for the railway industry include gondola wagons, low-sided wagons, hopper wagons for grain and pellet transportation and flat wagons for large-capacity container transportation.

The main items manufactured by Ziksto for the agriculture industry include grass lawn-mowers and cultivators and ploughs, as well as various consumer goods.

Its principal operating facilities are located in Petropavlovsk in the north of Kazakhstan and items manufactured by Ziksto are in compliance with ISO 9001:2008 quality assurance standards.

In 2012, Ziksto completed a modernisation project, to upgrade its grain wagon production facility. The total cost of this modernisation project was KZT 600 million.

Key Suppliers

Ziksto relies on the supply of metals from third-party suppliers to manufacture its wagons and agricultural items.

Ziksto's key suppliers are:

- LLP "Prommashkomplekt", a Kazakh company, which supplies iron and steel for use in railway wagons; and
- Nizhny Tagil Iron and Steel Works, a Russian company, which supplies iron and steel for use in railway wagons.

Management believes that all contracts concluded by Ziksto with its suppliers are in accordance with the Procurement Rules (as defined below). See "*—Procurement and Contractual Framework*".

Contracts with Ziksto's suppliers are generally entered into at set prices and typically require Ziksto to pay 50% of the cost of the goods in advance, with the balance to be paid within 30 to 60 working days following delivery of the goods. Contracts between Ziksto and its suppliers are mainly concluded on an arm's length basis.

Key Customers

Ziksto's key customers are companies within the Samruk-Kazyna group, including JSC "Kaztemirtrans" (a railway company in Kazakhstan and a subsidiary of KTZ) and JSC Kaztransservice (a railway company in Kazakhstan and a subsidiary of KTZ).

In the first six months of 2013, Ziksto's top three customers accounted for 89.4% of Ziksto's total sales. In the year ended 31 December 2012, Ziksto's top three customers accounted for 91.9% of Ziksto's total sales.

Contracts with Ziksto's customers are generally entered into on a long-term basis at set prices. The contracts typically require the customer to pay 50% of the purchase price in advance, with the balance to follow no later than 30 calendar days from receipt of an invoice following delivery of the goods. Ziksto's sales and contracts with its customers are mainly conducted on an arm's length basis.

There is no restriction in Ziksto's constitutional documents on Ziksto's ability to export its machinery and equipment to jurisdictions outside Kazakhstan.

Ziksto's principal operating facilities are located close to a large railway junction in Petropavlovsk, which provides good connections to the Ural and West Siberian regions of Russia. Ziksto may expand its export operations to these regions in the future. As at the date of this Prospectus, Ziksto does not sell its goods outside Kazakhstan.

Pricing

Prices for equipment produced by Ziksto are established on the basis of the sum of the costs of production plus a profitability margin.

Competition

In Kazakhstan, Ziksto faces competition from Kazakhstan Carriage Works Company LLP in Kazakhstan and from Armavir Heavy Machinery (Russia) and Mogilev Carriage Works (Belarus), whose products are imported into Kazakhstan. There are, however, no other Kazakhstan producers of gondola wagons. See *"Risk Factors—Risk Factors relating to the Group's Business—Competition"* and "*—Competition*".

Management

Ziksto's Board of Directors is comprised of five members, including two Independent Directors.

Eurocopter Kazakhstan Engineering LLP

Overview

Eurocopter KE was incorporated in December 2010 as a joint venture between the Company and Eurocopter S.A.S.

Eurocopter KE is a limited liability partnership engaged in the assembly, customisation, marketing, sale and maintenance of EC-145 helicopters and twin-engine helicopters. Its principal operating facilities are located in Astana, the capital of Kazakhstan.

As at the date of this Prospectus, the Company owns a 50.0% interest in Eurocopter KE, while the remaining 50.0% interest is owned by Eurocopter S.A.S. Eurocopter S.A.S. is wholly owned by EADS (the European Aeronautic Defence and Space Company), one of the largest aerospace groups globally.

In 2011, Eurocopter KE commenced assembly of EC-145 helicopters and established its assembly facilities in the special economic zone, Astana Zhana-Kala. See "*—Key Strengths—Favourable Regulatory and Contractual Framework*".

Pursuant to the terms of the co-operation agreement between the Company and Eurocopter S.A.S, the profits and costs of Eurocopter KE are shared between the joint venture partners *pro rata* to their respective ownership interests. In general, 50% of Eurocopter KE's profits are distributed as dividends, while the remaining 50% are re-invested in Eurocopter KE's activities.

Recent Financial Results

The following tables set forth certain key financial information for Eurocopter KE as at the dates and for the periods indicated:

Statement of Financial Position

	As at 30 June 2013	As at 31 December 2012	2011	2010	Change between 30 June 2013 and 31 December 2012	Change between 31 December 2012 and 2011
	(unaudited)		*(unaudited)*			
	(KZT thousands)				*(%)*	
Total assets	15,417,562	10,346,477	4,356,635	—	49.0	137.5
Total liabilities	10,602,327	5,385,680	1,069,511	—	96.9	403.6
Shareholders' equity	4,815,235	4,903,297	3,287,124	—	(1.8)	49.2

Statement of Comprehensive Income

	For the six months ended 30 June		For the year ended 31 December			Change between the six months ended 30 June 2013 and 2012	Change between the year ended 31 December 2012 and 2011
	2013	2012	2012	2011	2010		
	(unaudited)			*(unaudited)*			
	(KZT thousands)					*(%)*	
Revenue	24,417	—	13,478,691	10,583,079	—	100.0	27.4
Cost of sales	—	—	11,045,974	9,272,390	—	—	19.1
Operating expenses	219,163	132,310	407,302	140,403	—	65.6	190.1
Net profit	(80,948)	(132,952)	2,138,779	929,624	—	39.1	130.1

For the six months ended 30 June 2013, Eurocopter KE's revenues were KZT 24.4 million, as compared to nil for the six months ended 30 June 2012, primarily due to higher sales volumes in the 2013 period, as a result of orders from new customers. For the six months ended 30 June 2013, Eurocopter KE's net loss was KZT 80.9 million, as compared to KZT 133.0 million for the six months ended 30 June 2012, reflecting an improvement of KZT 52.0 million, or 39.1%. This improvement primarily reflected the timing impact of Eurocopter KE's Manufacturing Cycle. *See "—Overview"*.

For the year ended 31 December 2012, Eurocopter KE's revenues were KZT 13,478.7 million, as compared to KZT 10,583.1 million for the year ended 31 December 2011, reflecting an increase of KZT 2,895.6 million, or 27.4%. This increase was primarily due to higher sales volumes as a result of new orders from customers, as well as a reduction in certain costs as a result of Eurocopter KE's successful application to conduct business in the Astana Zhana-Kala special economic zone. See "*—Key Strengths—Favourable Regulatory and Contractual Framework*". For the year ended 31 December 2012, Eurocopter KE's net profit was KZT 2,138.8 million, as compared to KZT 929.6 million for the year ended 31 December 2011, reflecting an increase of KZT 1,209.2 million, or 130.1%. This increase primarily reflected the year-on-year increase in revenues, partially offset by the year-on-year increase in costs of sales and operating expenses, in each case, due to higher sales volumes as a result of new orders from customers.

Principal Business Activities

Eurocopter KE is engaged in the assembly, customisation, marketing, sale and maintenance of EC-145 helicopters and twin-engine helicopters typically used for passenger transport, corporate transport, emergency medical services, search and rescue operations and utility use. Eurocopter KE also provides training to the flight and technical personnel of its customers. Although Eurocopter KE manufactures helicopters for certain customers in the defence industry, it does not develop, manufacture or fit arms or ammunitions to such helicopters.

Eurocopter KE's assembly plant is located in Astana and has a design capacity to assembly between eight and ten helicopters per year.

The Company and Eurocopter S.A.S. have, to date, invested an aggregate amount of KZT 2.4 billion in the joint venture project (of which the Company's contribution was KZT 1.2 billion). As at the date of this Prospectus, a total of 20 helicopters have been assembled by Eurocopter KE and it is expected that, in accordance with the Memorandum of Mutual Understanding and Co-operation for the Manufacturing, Delivery and Maintenance of Light Weight Twin-Engine Helicopters entered into among the Ministry of Defence, EADS and Eurocopter S.A.S in October 2010, a total of at least 45 helicopters will be assembled by 2017.

Key Suppliers

Eurocopter KE relies on the supply of spare parts, engines and electronic devices from third parties to assemble its helicopters.

Eurocopter KE's key suppliers are:

- Eurocopter S.A.S, the Company's joint venture partner based in France, which supplies spare parts for use in helicopter assembly;
- the Turbomeca group, a French helicopter engine and repair group, which supplies helicopter engines; and
- Thales S.A. a French defence industry company, which supplies opto-electronic devices for use in the helicopters.

Contracts with Eurocopter KE's suppliers are generally concluded on the standard terms and conditions of the relevant supplier. Contracts between Eurocopter KE and its suppliers are mainly concluded on an arm's length basis.

Management believes that all contracts concluded by Eurocopter KE with its suppliers are in accordance with the Procurement Rules. See *"—Procurement and Contractual Framework*".

Key Customers

Eurocopter KE's key customers are the Ministry of Defence, the Ministry of Emergency Situations and A JET AVIATION LLC (an aviation company in Mongolia).

In the first six months of 2013, one of these customers accounted for 100% of Eurocopter KE's total sales. In the year ended 31 December 2012, two of these customers (both of whom acquired helicopters indirectly through the Company) accounted for 100% of Eurocopter KE's total sales.

Contracts with Eurocopter KE's customers are entered into on a case-by-case basis and typically require the customer to pay between 75% and 100% of the purchase price in advance. Eurocopter KE's sales and contracts with its customers are mainly conducted on an arm's length basis.

There is no restriction in the co-operation agreement between the Company and Eurocopter S.A.S on Eurocopter KE's ability to export helicopters to jurisdictions other than Kazakhstan and Eurocopter KE has exclusive rights to sell EC-145 helicopters in the CIS. Eurocopter KE already exports helicopters to Mongolia and plans, in the near future, to export its helicopters to countries within the CIS.

Pricing

The helicopters sold by Eurocopter KE are priced according to the same pricing model as those sold by the rest of the Eurocopter group, net of taxes. These prices are set according to the prevailing market conditions, as well as the sum of the costs of production plus a profitability margin.

Competition

There is no competition in the Kazakhstan market or within the CIS for the types of helicopters assembled by Eurocopter KE. See "*Risk Factors—Risk Factors relating to the Group's Business—Competition*" and "—*Competition*".

Management

Pursuant to the terms of the co-operation agreement between the Company and Eurocopter S.A.S., the Company appoints the Chief Accountant, Legal Director and Commercial Director of Eurocopter KE, while Eurocopter S.A.S appoints the Chief Executive Officer and Financial Director of Eurocopter KE.

Key Investment Projects

The Company is in the process of implementing a number of key investment projects.

Prior to implementing any investment project, the proposal for the project must be reviewed and approved by the necessary departments and committees within the Company. Firstly, a business plan for the proposed project is prepared and developed by the Investment Projects Department and the other relevant departments of the Company (as determined on a project-by-project basis). The business plan is then reviewed by the Investment and Innovation Committee and the financing requirements of the project are reviewed by the Credit Committee. Each of these committees then makes its recommendations to the Company's Management Board. See "—*Management and Employees—Management Board Committees*".

If the project relates to a subsidiary that is 50% or more owned by the Company, involves funds received from the State Budget or from Samruk-Kazyna, involves funds guaranteed by the Company or Samruk-Kazyna or is otherwise a strategic or new type of investment project for the Group, the project is then reviewed by the Strategic Planning and Investment Committee of the Company's Board of Directors, before being reviewed by the Investment Committee and the Management Board of Samruk-Kazyna. The recommendations of these committees and the Management Boards of the Company and Samruk-Kazyna are then passed to the Company's Board of Directors, which has the authority to approve the project. If the project relates to an entity that is less than 50% owned or is not a strategic or guaranteed project, the Management Board may approve the investment project.

As at the date of this Prospectus, the Company is developing a number of investment projects, including a design and manufacturing facility for electro-optical devices, an aircraft assembly and maintenance centre in Astana and an assembly and maintenance facility for unmanned aerial vehicles, a manufacturing facility for tactical radio devices and electronic equipment, a design and manufacturing facility for electronic intelligence and radar devices and integrated security systems for border control and a shipbuilding and ship repair yard on the Caspian Sea.

A description of the Group's key investment projects is set out below.

Construction of Shipbuilding and Ship Repair Yards Project

Overview

The Company is developing a project to construct shipbuilding and repair facilities in the Caspian region of Kazakhstan. The ships to be constructed will be for use by both the defence and civil sectors and will have a capacity of up to 1,500 tonnes.

As at the date of this Prospectus, this project is at the blueprint stage, the Company is in negotiations with potential joint venture partners and no company has been established to implement the project. The project is being developed in accordance with the Government's Action Plan for the Development of the Mangistau Region 2013 to 2018.

Once completed, the facilities are expected to have a production capacity to construct between two and four ships per year, to repair up to 20 ships per year.

The target customers for the project are State entities, including the Ministry of Defence, the Ministry of Emergency Situations and the National Security Committee of Kazakhstan, as well as national companies and private companies within the oil and gas sector.

Cost and Timing

The facilities are expected to become operational by 2015, pending the results of the project feasibility studies, which are being conducted by external consultants.

The preliminary total cost of the project is expected to be KZT 22.0 billion, which is expected to be funded by contributions from the State Budget, internal cash flows and the proceeds of debt securities and loans, as well as the contributions of any joint venture partner.

Kazakhstan Aviation Industry LLP

Overview

KAI is a limited liability partnership formed to construct an Aviation Technology Centre in Astana. KAI was incorporated in July 2012.

As at the date of this Prospectus, KAI is a wholly owned subsidiary of the Company.

As at 30 June 2013, KAI had total assets of KZT 273.1 million, as compared to KZT 127.8 million as at 31 December 2012. For the six months ended 30 June 2013, KAI recorded a net loss of KZT 42.0 million. For the year ended 31 December 2012, KAI recorded a net loss of KZT 24.6 million, reflecting costs incurred during the start-up phase of the project.

The Supervisory Board of KAI is comprised of three members.

Aims

KAI is expected to be engaged in the assembly, maintenance and technical support of aircraft equipment for the defence and civil sectors at a newly-constructed Aviation Technology Centre, which is expected to be built in Astana.

KAI's target customers are State authorities, including the Ministry of Defence, the Ministry of Emergency Situations, the Ministry of Health of Kazakhstan and the Ministry of Agriculture of Kazakhstan, as well as private sector aviation and other industrial companies in Central Asia and Russia. As at the date of this Prospectus, there is only one other company in Kazakhstan that conducts servicing activities for the aviation industry.

Cost and Timing

The Aviation Technology Centre is expected to become operational in September 2014.

The total cost of the project is expected to be KZT 13.5 billion, of which KZT 152.1 million has been spent as at the date of this Prospectus. The project is expected to be funded by contributions from the State Budget, as well as from the Company's own funds.

Assembly and Maintenance Facility for Unmanned Aerial Vehicles

KAI is also expected to develop a design, assembly and manufacturing facility for new high-technology unmanned aerial vehicles to be used in Kazakhstan for real-time surveillance of oil and gas pipelines, borders and strategic facilities and for fire fighting in forests and mountains. As at the date of this Prospectus, this project is at the blueprint stage. The expected costs and timing for the completion of the project depend upon the results of the project feasibility studies.

Kazakhstan Aselsan Engineering LLP

Overview

KAE is a limited liability partnership formed to manufacture electro-optical devices. KAE was incorporated in May 2011 as a joint venture between the Company and Aselsan Elektronik Sanayi Ve Ticaret A.Ş., a Turkish defence industry company, which is part of the Turkish Armed Forces Foundation group.

Since 2012, KAE has been established in the special economic zone, Astana Zhana-Kala. See "—*Key Strengths—Favourable Regulatory and Contractual Framework*".

As at the date of this Prospectus, the Company owns 50.0% of KAE, while 49.0% of KAE is owned by Aselsan Elektronik Sanayi Ve Ticaret A.Ş. and the remaining 1.0% of KAE is owned by the Defence Industry Committee of Turkey.

As at 30 June 2013, KAE had total assets of KZT 4,430.5 million, as compared to KZT 3,816.7 million as at 31 December 2012 and KZT 93.2 million as at 31 December 2011. For the six months ended 30 June 2013, KAE recorded a net loss of KZT 112.7 million. For the year ended 31 December 2012, KAE recorded a net profit of KZT 8.7 million, as compared to a net loss of KZT 41.6 million for the year ended 31 December 2011.

KAE's Supervisory Board is comprised of three members. Pursuant to the terms of the joint venture agreement between the Company and Aselsan Elektronik Sanayi Ve Ticaret A.Ş., the Company appoints the Chief Accountant, Legal Director and Commercial Director of KAE, while Aselsan Elektronik Sanayi Ve Ticaret A.Ş., appoints the Chief Executive Officer and the Chief Operating Officer of KAE.

Aims

KAE is expected to be engaged in the design and manufacturing of night vision equipment, day optics equipment, thermal vision equipment and turning lenses, primarily for use in the defence industry.

KAE's target customers are the armed forces of Kazakhstan and other CIS countries. Pursuant to the terms of the joint venture agreement, there are no restrictions on KAE's ability to export its products outside of Kazakhstan.

Cost and Timing

KAE's manufacturing plant is expected to become operational in January 2014.

The total cost of the project is expected to be KZT 5.0 billion, of which KZT 4.4 billion has been spent as at the date of this Prospectus. The project is expected to be funded by contributions by the Company and Aselsan Elektronik Sanayi Ve Ticaret A.Ş.

According to the joint venture agreement, the profits and costs of KAE will be shared between the joint venture partners *pro rata* to their respective ownership interests.

Environment, **Health and Safety**

The Company believes that the Group is in compliance with all applicable Kazakhstan environmental protection regulations. The Group monitors its production processes and hazardous emissions through the use of industrial ecological control and management systems. These controls enable the Group to make environmental management decisions and to formulate environmental and ecological policies associated with protecting the environment, regulating production processes, minimising the effect of production processes on the environment and public health and increasing efficiency with respect to the use of energy and natural resources.

In connection with each new project or facility to be operated by the Group, the Group prepares and submits an environmental impact assessment to the relevant authorities for approval. The Group's compliance with these environmental impact assessments is reviewed on a quarterly basis and no material issues were identified as a result of the last review. In addition, the Group has obtained all necessary permits required for emissions that may exceed the emission quotas granted by the State. These permits, which are applied for in respect of individual manufacturing facilities or in respect of defined areas, are granted for a five year period. The Company believes that the Group is in compliance with all material provisions of its environmental impact assessments and emissions permits and does not expect any material changes to such assessments or permits. See "*Risk Factors—Risk Factors relating to the Group's Business—Environmental Laws and Regulations*".

The Company is developing an environmental programme to improve environmental safety across its manufacturing facilities, principally by developing rules of corporate governance in respect of injury prevention, the reduction of emissions volumes and other harmful effects of the Group's manufacturing activities on the environment. The Group's current environmental strategy includes, among other things: (i) increasing the safety of its manufacturing activities; (ii) repairing and installing safeguards to protect groundwater, such as absorption fields and waste chutes; (iii) installing fly-ash, dust and gas collecting equipment at the Group's facilities; (iv) introducing safe and resource-saving technologies directed at decreasing the amount of polluting substances emitted and increasing energy efficiency, including through installing emissions gauges on Group equipment; (v) applying effective methods and control systems in the fields of labour and environmental protection (including with respect to communication, information and notification systems); (vi) training its employees with respect to safety and labour protection; and (vii) providing environmental protection presentations to contractors of the Group.

In accordance with the Group's Regulations on Environment Protection dated 5 June 2009, subsidiaries of the Company are obliged to, and do, formulate environmental plans annually to minimise the impact of their business operations on the environment.

The Group has identified certain key performance indicators in respect of health and safety matters as part of its strategy, including targets to reduce the number of accidents involving employees and the number of accidents leading to a halt in production. Management of the each subsidiary monitors and reviews its compliance with these key performance indicators on a monthly basis to the extent applicable.

Significant Licences

The Group conducts its business operations under various licences, which authorise it (i) to carry out a full range of business activities in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of equipment and spare parts and (ii) to perform expert works and engineering services to fulfil State defence orders or other State orders. In particular, the Group holds all necessary licences from the Ministry of Defence for the manufacturing of machinery and other equipment for the defence sector. The Group's licences are generally of perpetual duration and are almost all subject to annual or quarterly reporting requirements with respect to the activities performed under the respective licences. See *"Risk Factors—Risk Factors relating to the Group's Business—Licences and Permits"*. As at the date of this Prospectus, the Group is in compliance with all such reporting requirements and the Company has no reason to believe that any of its licences will be revoked or amended in any material adverse respect.

Procurement and Contractual Framework

As the Company is a wholly owned subsidiary of Samruk-Kazyna, the Group conducts its procurement of goods, works and services in accordance with the Rules for the Procurement of Goods, Works and Services by Samruk-Kazyna and Organisations of Which 50% of More of Voting Shares (Participatory Interests) Is Owned or Trust Managed by Samruk-Kazyna, adopted by the Board of Directors of Samruk-Kazyna dated 26 May 2012 № 80, which are Samruk-Kazyna's rules for companies directly or indirectly majority-owned or trust managed by Samruk-Kazyna (the "**Procurement Rules**") and became effective on 10 September 2012.

The Procurement Rules provide for the regulation of procurement procedures using various methods: holding tenders; sending requests for proposals; making purchases through electronic trades; commodity exchanges and procurement from single sources; entering into procurement agreements; and monitoring and reporting by potential suppliers of the amount of content in proposals that is of Kazakhstan origin in order to promote and increase the use of locally-sourced goods and services ("**local content**").

Management believes that contracts concluded by the Company and its subsidiaries, associates and joint ventures with their respective suppliers and customers are in accordance with the Procurement Rules.

The practice of the Government and Samruk-Kazyna (as permitted under the Procurement Rules) has been to promote long-term contracts between the Group and the State or companies within the Samruk-Kazyna group, as well as to require the State and such companies to provide significant prepayments in respect of goods and services purchased from the Group. This practice provides a certain predictability and stability in respect of the Group's future revenues and enables the Group to increase the profitability of its contracts. As at the date of this Prospectus, the Group has the following contractual orders for civilian and defence machinery, equipment and services to be completed and delivered in the years indicated, subject, in each case, to cancellation or adjustment in accordance with the terms of the relevant contract:

	For the year ended 31 December		
	2013	2014	2015
		(unaudited) *(KZT thousands)*	
Civil	29,078,382	13,340,968	11,064,371
Defence	41,471,938	36,100,500	23,800,000
Total	**70,550,320**	**49,441,468**	**34,864,371**

Competition

A number of sectors in which the Group operates, in particular, machinery-building for the aviation and defence sectors, are high-technology sectors involving high levels of capital expenditures and substantial barriers to entry. As a result, the Group generally faces little or no competition from Kazakhstan-based machinery-building companies in respect of the majority of its goods and services. In particular, the Group benefits from exclusivity with respect to State defence orders for goods and services and it is not required to tender for such orders. The Group is, however, subject to certain competition from foreign producers whose products are imported into the Kazakhstan market, as well as in connection with the Group's export operations.

The Group is not considered to be a monopoly or dominant entity for the purposes of competition law in Kazakhstan. The Competition Agency assesses market share according to the industry of operation, *i.e.*, the machinery-building industry for the Group. According to Management estimates, based on production figures compiled by the NSA, in 2012, the Group had a market share of approximately 11% of the machinery-building industry. The Competition Agency recently conducted a review of the operations of all State-owned companies, including the Group. As a result of this review, the Competition Agency determined that the Group was not a monopoly or dominant entity in the machine-building industry and, accordingly, did not fall under the more rigorous supervision of the Government under the Law of the Republic of Kazakhstan On Competition 112-IV dated 25 December 2008, as amended. The Competition Agency did, however, recommend that the Group dispose of significant interests in certain of its non-core businesses. In line with such recommendations, in 2011 and 2012, the Group disposed of a 51% interest in Kazakhstan Engineering Distribution LLP, a 65% ownership interest in Kuzet LLP (now SpecMash Astana LLP, although the registration formalities for this disposal were not completed until August 2013) and a 49% interest in Aviasnap LLP. See "*Risk Factors—Risk Factors relating to the Group's Business—Competition*".

Insurance

The insurance market is still in the early stages of development in Kazakhstan. Similar to many other State-owned enterprises in Kazakhstan, the Group maintains limited insurance coverage. The Group holds the required statutory minimum insurance coverage with respect to automobile insurance, employer liability insurance and environmental insurance. Insurance policies maintained by the Group are purchased, at arm's length, from commercial insurance operators in Kazakhstan.

The Group does not hold insurance with respect to its production assets, nor does it maintain third party and employee liability insurance. In respect of certain high value spare parts or other freight, the Group insures products during transportation of the products to the Group's premises. The goods manufactured by the Group are insured during transportation from the Group's premises to the customer according to insurance held by the relevant transportation company. See *"Risk Factors—Risk Factors relating to the Group's Business—Insurance"*.

Information and Information Management Systems

Each of the Company and its subsidiaries maintains separate information technology and information management systems with different platforms and software to reflect the different business lines within the Group. Companies within the Group source their information technology software from various Russian and Kazakh providers. As at the date of this Prospectus, the Group does not have any off-site back-up system for data protection.

The Company is in the process of integrating the information technology and information management systems of all companies within the Group into one centralised information technology framework, which will service the entire Group. In 2012, the Company completed the first phase of this integration project, which involved the integration of the financial reporting system and information management system. The next phases of this project are: (i) to integrate the Group's information technology systems to incorporate operational data from the companies within the Group for planning and budgeting and treasury operations, which is ongoing and expected to cost KZT 90 million, and is being funded from the Company's own funds; and (ii) to develop a corporate information portal containing information resources regarding the Company, which is currently at the testing phase and is expected to cost KZT 27 million and to be funded from the Company's own funds. The further phases of this project are expected to be completed by the end of 2014.

In addition, the Company intends to increase the use of advanced and automated technology across the Group's operations, as evidenced by a number of the Group's on-going investment projects. See "*—Key Subsidiaries*" and "*—Key Joint Ventures*". Other efforts include the implementation of an automated information management system for the Group's contract, procurement and commercial activities.

In 2012, the Group spent KZT 246 million on maintaining and further upgrading its information technology and information management systems. The Group has a total budgeted capital expenditure for all information technology projects of KZT 310 million in 2013 (of which KZT 142 million has been spent as at the date of this Prospectus), KZT 320 million in 2014 and KZT 338 million in 2015. This capital expenditure is expected to be funded from the Company's own funds. See *"Risk Factors—Risk Factors relating to the Group's Business—Information Systems Risk"*.

Certain of the Group's subsidiaries hold patents protecting design rights in respect of certain of the goods and equipment manufactured by the Group.

Credit Ratings

The Company is rated by Moody's and Fitch and its credit ratings are as follows:

Rating Agency	**Tenor**	**Rating**	**Outlook**
Moody's	Foreign Long Term Corporate Family Rating	Ba2	Stable
	Local Long Term Corporate Family Rating	Ba2	Stable
Fitch	Foreign Long Term Rating	BBB-	Stable
	Local Long Term Rating	BBB	Stable
	Foreign Short Term Rating	F3	Stable

A credit rating is not a recommendation by the rating organisation or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organisation and each should be evaluated independently from the other. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

MANAGEMENT AND EMPLOYEES

General

The Charter provides for the following corporate governing bodies:

- the sole shareholder, which is the supreme governing body of the Company. The Company's shares are managed by the Ministry of Defence pursuant to the Trust Management Agreement. Accordingly, a number of Samruk-Kazyna's shareholder rights and obligations are exercised by the Ministry of Defence;

- the Company's Board of Directors, which is responsible for the general management of the Company and the approval of its development strategy and operational plans;

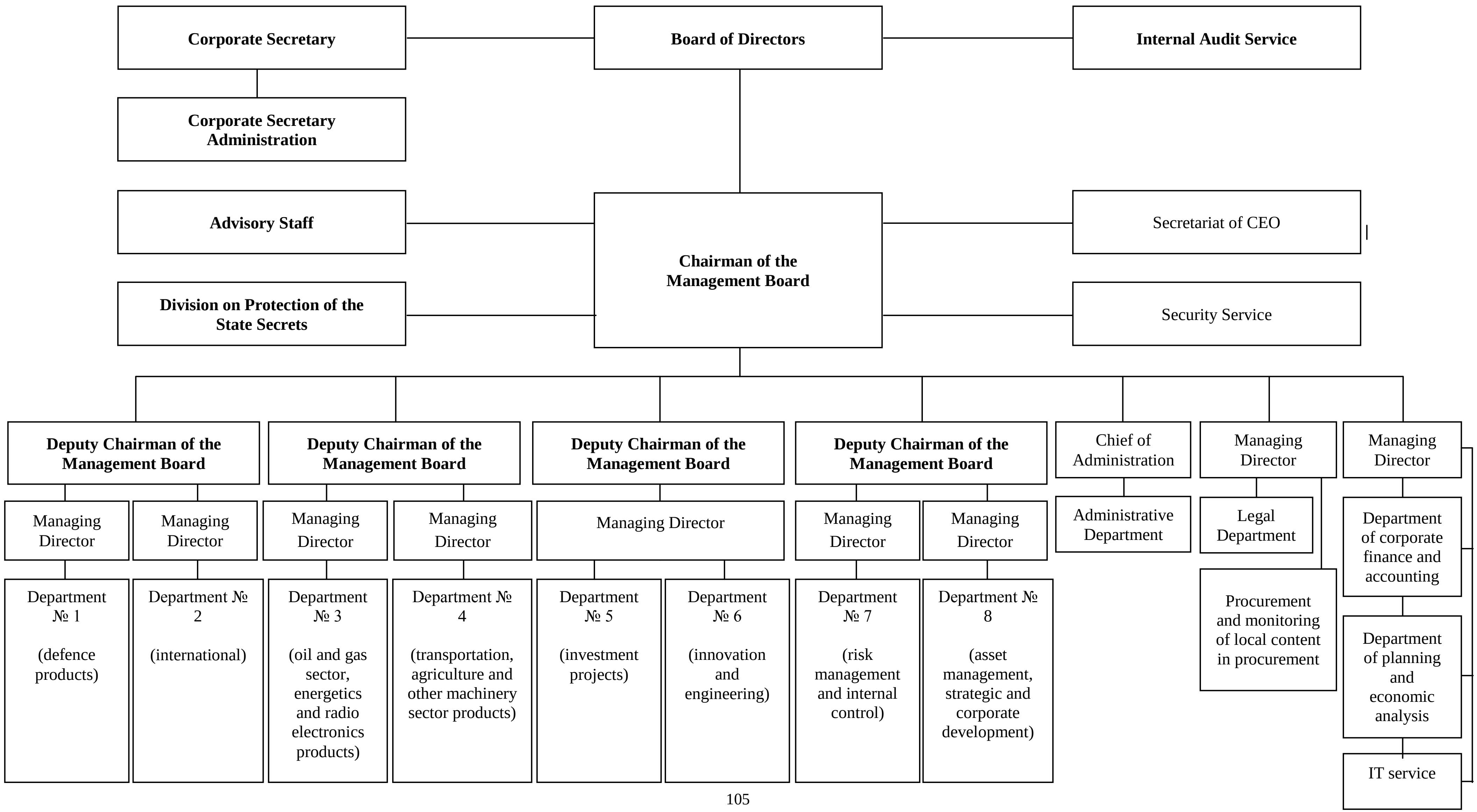
- the Company's Management Board, which is responsible for the day-to-day management and administration of the Company; and

- the Internal Audit Service, which is responsible for the Company's internal control processes.

See "*Business—The Group*", "*—Sole Shareholder and Trust Management*", "*—Board of Directors*", "*—Management Board*", "*—Internal Audit Service*" and "*Share Capital, Sole Shareholder, Trust Manager and Related Party Transactions*".

Organisational Structure of the Company

The following chart sets forth the organisational structure and management reporting lines of the Company as at the date of this Prospectus:



Sole Shareholder and Trust Management

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the JSC Law, the Law on the Sovereign Wealth Fund (№ 550-IV, dated 1 February 2012) and the Charter, the latest version of which was approved by a decision of the sole shareholder dated 4 September 2012. See "*Share Capital, Sole Shareholder, Trust Manager and Related Party Transactions—Samruk-Kazyna*".

The functions of the sole shareholder include, among others, the following:

- appointing the Company's external auditors;
- approving any increase in the Company's share capital;
- appointing the members of the Company's Board of Directors;
- approving the Company's annual financial statements;
- approving the appointment of the Chairman of the Company's Management Board;
- adopting decisions relating to dividend payments by the Company; and
- approving purchases by the Company of shares in other legal entities (whether upon the establishment of such entities or otherwise) and the participation by the Company in joint ventures where the amount of consideration paid by the Company in cash or in-kind for such acquisition or participation exceeds 25% of the balance sheet value of the Company's assets.

In November 2011, Samruk-Kazyna acquired the remaining 39.01% of the shares of the Company from the Privatisation Committee. Accordingly, as at the date of this Prospectus, Samruk-Kazyna is the sole shareholder of the Company. See "*Business—History*".

In July 2009, Samruk-Kazyna transferred the management of shares it held in the Company to the Ministry of Industry and Trade, in accordance with Government Decree № 1099 dated 20 July 2009. In June 2010, Samruk-Kazyna and the Privatisation Committee transferred the management of the shares of the Company to the Ministry of Defence, in accordance with Government Decree № 357 dated 28 April 2010. The management of the shares is governed by the Trust Management Agreement. Pursuant to the Trust Management Agreement, the Ministry of Defence exercises Samruk-Kazyna's shareholder rights and obligations in accordance with the JSC Law, save certain rights reserved to Samruk-Kazyna, as specified therein. In particular, pursuant to the Trust Management Agreement, the Ministry of Defence has the competence to: (i) appoint, or terminate the appointment of, members of the Company's Board of Directors; and (ii) appoint, or terminate the appointment of, the Chairman of the Company's Management Board, in each case, following consultation with Samruk-Kazyna. Pursuant to the Trust Management Agreement, Samruk-Kazyna continues to have exclusive competence to, among other things: (i) approve any increase in the Company's relating to any share capital; (ii) approve the Company's annual financial statements; (iii) adopt decisions relating to dividend payments; (iv) approve purchases by the Company in shares of other legal entities or joint ventures where the amount of consideration for such acquisition exceeds 25% of the balance sheet value of the Company's assets; and (v) approve any reorganisation or liquidation of the Company. See "*Share Capital, Sole Shareholder, Trust Manager and Related Party Transactions—Ministry of Defence*".

Board of Directors

The Company's Board of Directors is responsible for the general management of the Company's activities, except for those matters that, in accordance with applicable laws, are reserved to the exclusive competence of the sole shareholder or are delegated to the Company's Management Board.

In accordance with the Charter, unless otherwise specified by applicable law, the following matters, among others, fall within the exclusive competence of the Company's Board of Directors:

- determining the strategy and priorities for the Company, including approving, and monitoring the implementation of, the Company's development strategy and development plans, as well as setting the budget for such development plans;

- approving plans relating to the management of the Group's assets;

- adopting decisions relating to any redemption by the Company of its outstanding shares or other securities and the applicable redemption price;

- granting preliminary approval of the Company's annual financial statements;

- determining the conditions relating to the Company's issuances of debt and derivative instruments;

- determining the size of the Company's Management Board, appointing and removing members of the Company's Management Board (except for the Chairman of the Company's Management Board) and determining the term of their appointment;

- determining the remuneration and other benefits of the Chairman and other members of the Company's Management Board;

- determining the size, term and work procedure of the Internal Audit Service and appointing and removing the managers of the Internal Audit Service;

- recommending dividends to the sole shareholder;

- adopting decisions relating to the Company's participation in the establishment of other legal entities, as well as the purchase or sale of 10% or more of shares or participatory interests in other legal entities;

- adopting decisions relating to the acquisition or disposition of assets having a value of 10% or more of the total value of the Company's assets;

- adopting decisions relating to transactions in which the Company has an interest, where the counterparty is not part of the Samruk-Kazyna group;

- approving the Company's risk management policy, internal risk management procedures and acceptable risk limits; and

- approving decisions of the Company's Management Board to enter into transactions relating to social projects in Kazakhstan, which do not have as their aim the maximisation of the Group's profits.

Pursuant to the Charter, members of the Company's Board of Directors are elected by Samruk-Kazyna. Pursuant to the Trust Management Agreement, this function is exercised by the Ministry of Defence, following consultation with Samruk-Kazyna.

The Company's Board of Directors also monitors and, if possible, eliminates any potential conflicts of interests of Government officials and the sole shareholder, including any misuse of the Company's property and potential conflicts arising from any related party transactions.

As at the date of this Prospectus, the members of the Company's Board of Directors are:

Name	Other Positions	Date Appointed
Bakhytzhan Zharylkasynuly Abdirayim	Deputy Minister of Defence of Kazakhstan	16 October 2013
Vladislav Germanovich Galiyev	Deputy Chairman of the Agency of Kazakhstan on Housing and Utilities Matters	18 October 2011
Albert Pavlovich Rau	First Vice-minister of Industry and New Technologies of Kazakhstan	10 June 2010
Malik Zhanabayevich Salimgereev	Managing Director of Samruk-Kazyna	3 March 2012
Bolat Sovetovich Smagulov	Chairman of the Company's Management Board	5 October 2010
Kanysh Kaidarovich Aubakirov (Independent Director)	First Vice President of the Football Federation of Kazakhstan	3 March 2012
Evgeniy Ivanovich Kazeev (Independent Director)	Chief Executive Officer of Almatyenergoservice LLP	5 March 2011
Oleg Anatolievich Kalugin (Independent Director)	Independent Legal Consultant	3 March 2012
Nartai Nurtaevich Dutbayev (Independent Director)	—	5 April 2013

The current composition of the Company's Board of Directors (save for the appointment of Bakhytzhan Abdirayim) was approved by Order of the Minister of Defence № 220 dated 4 May 2013, following consultation with Samruk-Kazyna.

Mr. Abdirayim was appointed as Chairman of the Company's Board of Directors on 16 October 2013 in accordance with Order of the Minister of Defence № 494 dated 16 October 2013, following the sole shareholder's decision (Decision № 453 dated 17 September 2013) to replace Mr. Gromov (the former Deputy Minister of Defence of Kazakhstan) following his appointment as deputy of the Senate of the Parliament. Mr. Gromov had previously served as Chairman of the Company's Board of Directors since 7 November 2011.

Summary biographical information for each member of the Company's Board of Directors is set out below:

Bakhytzhan Abdirayim

Mr. Abdirayim was born in 1965 and graduated from the S. M. Kirov Kazakh State Academy in 1990 with a degree in Jurisprudence, from the Turan University in 1997 with a qualification in Finance and Credit, from the S.M. Kirov Kazakh State Academy in 1990 with a masters degree in Law and from the Institute of State and Law of the Russian Academy of Sciences in 2001 with a doctorate in Law. He began his career as Economic Advisor and State Arbitrator at the State Arbitration Department of Kazakhstan. From 1993 to 1995, Mr. Abdirayim served as a judge of the Supreme Court of Arbitration of Kazakhstan. From 1995 to 2001, Mr. Abdirayim served as a judge of the Supreme Court of Kazakhstan. In 2001, he served as a Member of the Supreme Judicial Council of Kazakhstan and worked as the Chairman of the Union of Judges of Kazakhstan. From 2002 to 2006, Mr. Abdirayim was the Head Representative of the President of Kazakhstan in the Parliament. In 2006, he also worked as Head of the Administration of the Senate of the Parliament. From 2006 to 2007, Mr. Abdirayim was a Rector at Akmola University of Technology and Business. In 2007, he served as Chairman of the Committee on Court Administration of the Supreme Court of Kazakhstan. From 2007 to 2008, Mr. Abdirayim was the Head Representative of the President of Kazakhstan in the Parliament. From 2008 to 2012, he worked as Rector of the L. N. Gumilev Eurasian National University. From 2012 to 2013, Mr. Abdirayim served as President of JSC "Centre for Military and Strategic Studies" under the Ministry of Defence. In October 2013, he was appointed as the Deputy Minister of Defence of Kazakhstan. Mr. Abdirayim was appointed to the Company's Board of Directors and as a Chairman of the Company's Board of Directors on 16 October 2013.

Vladislav Galiyev

Mr. Galiyev was born in 1969 and graduated from the Kazakh State Academy of Management in 1994 with a degree in Marketing and Commerce, from the Caspian Social University in 2006 with a qualification in Law and from the Kazakh Academy for Architecture and Civil Engineering in 2012 with a qualification in Construction. He began his career as Central Warehouse Leader at "Gorvodokanal" in Almaty in 1988. From 1989 to 1991, Mr. Galiyev worked as the Head of the RSU Department of the State Plan of Kazakh SSR. From 1991 to 1997, he worked as the head of "Altyn-TAU" LLP, "Zhiger" LLP, "Munay Agro" LLP and "Kazakhintorg Terminal Service" LLP in Almaty. From 1997 to 2004, Mr. Galiyev worked as the Marketing Director of the "Hurricane-Kumkol-Munai" oil company and then as the Vice-

President of “Fesa Int.” LLP in Almaty. From 2001 to 2002, he worked as an Adviser to the Mayor of the Atyrau region. From 2002 to 2004 and 2006 to 2007, Mr. Galiyev worked as the Vice-President of “Fesa Int.” LLP in Almaty. From 2007 to 2008, he worked as the General Director of “Vodokanal” GKP of the Almaty Mayoralty. Since 2008, Mr. Galiyev has worked as the President of JSC “Kazakh Vodokanalproject” of the Agency for the Construction, Housing and Utilities of Kazakhstan. From 2011 to 2013, he also worked as the Deputy Chairman of the Agency for the Construction, Housing and Utilities of Kazakhstan. In 2013, Mr. Galiyev was appointed as the Chairman of the Committee for Construction, Housing and Utilities of the Ministry for the Regional Development of Kazakhstan. Mr. Galiyev was appointed to the Company’s Board of Directors on 18 October 2011.

Albert Rau

Mr. Rau was born in 1960 and graduated from the Rudensk Industrial Institute in 1982 as a Mining Electrician-Engineer and from the Russian Presidential Academy of State Service in 2004 as a State and Local Municipal Government Manager. Mr. Rau has a PhD in Economics from the Russian Academy of State Service in 2004. He began his career as an Electrician at the KazShakhtOrudStroy Trust of the town of Rudniy in the Kostanai region in 1982. From 1984 to1991, Mr. Rau worked as an Electrician and chaired the Trade Union of the Kurzhunkul Mine Group of the Kostanay region. From 1991 to 1992, he worked as the Head of the Self-Support Commercial Department of the Executive Committee of the Lisokov City Council of the People’s Deputies of the Kostanay Region. From 1992 to 1993, Mr. Rau chaired the Lisokov City Council of the People’s Deputies of the Kostanay Region. From 1993 to 1994, he served as the Deputy Head of the Lisokov City Administration of Kostanay Oblast. From 1994 to 1995, Mr. Rau worked as the Head of the Lisokov City Administration of the Kostanay Region. From 1995 to 2004, Mr. Rau served as the Mayor of Lisokov City of the Kostanay Oblast. From 2004 to 2007, he served as the Deputy Mayor of Lisokov City of the Kostanay Region. From 2007 to 2008, Mr. Rau chaired the Board of Directors of JSC Saryarka Socio-Entrepreneurial Corporation. In 2008, he became Mayor of the Akmola Region. In 2010, Mr. Rau was appointed as the Deputy Minister of Industry and New Technologies of Kazakhstan. Mr. Rau was appointed to the Company’s Board of Directors on 10 June 2010.

Malik Salimgereev

Mr. Salimgereev was born in 1960 and graduated from the I.M. Gubkin Institute of Oil and Gas Industry in Moscow in 1982 with a specialisation in Geology and Gas-and-Oil Field Exploration and from the Geology Institute of the Academy of Sciences of Kazakhstan in 1995 with a Masters in Geology and Gas-and-Oil Field Exploration. Mr. Salimgereev began his career as a Chief Geologist in the Experimental, Oil-producing Administration of Karazhanbastermneft Soyuztermneft in 1987. In 1994, he was appointed First Vice-President of JSC Karazhanbasmunay and from 1999 and 2000, worked as Deputy Director General for Science, New Methods and Technology on Oil and Gas Production at KazNIPIneft Mangyshlakneft. In 2001, he became Vice-President for Production at JSC Kazakhoil-Emba and was appointed as Deputy Director for Production at KMG EP in 2004. From 2004 to 2006, Mr. Salimgereev was Deputy Director for Production at JSC KazMunaiGas Exploration Production and PF Embamunaigas, before becoming an Advisor to the Director General of KMG EP in 2006. From 2007 to 2010, he worked as Director of the Oil Industry Development Department of the Ministry of Energy and Mineral Resources of Kazakhstan. From 2010 to 2012, he worked as the Director for Oil and Gas Assets Management of Samruk-Kazyna. In 2011, Mr. Salimgereev was appointed as a member of the Board of Directors of KMG. Since 2012, he has been the Managing Director of Samruk-Kazyna. Mr. Salimgereev was appointed to the Company’s Board of Directors on 3 March 2012.

Bolat Smagulov

Mr. Smagulov was born in 1964 and graduated from the Karaganda Cooperative Institute in 1987 as an Economist-Organiser, and from Turan University in 2001 with a qualification in Law. He began his career as a Laboratory Technician at the Coal Scientific Research and Design-Instructor Institute in 1981. From 1982 to1992, Mr. Smagulov worked as an Accountant and a Forwarder at the Michurinskii District Consumption Union and then as a Director of Konsunskii Commercial Enterprise of the Mickurinskii District Consumption Union. From 1992 to 1998, he was an Entrepreneur. From 1998 to 2001, Mr. Smagulov worked as a Branch Director of the Astana Agency for Reorganisation and Liquidation. From 2001 to 2003, he worked as Deputy Chairman of the Committee on the Insolvent Debtors of the Ministry of State Revenue of the Ministry of Finance of Kazakhstan. In 2003, he worked as the Chairman of the Trade Committee of the Ministry of Industry and Trade of Kazakhstan. From 2003 to 2006, Mr. Smagulov served as the Deputy Minister of Industry and Trade of Kazakhstan, as well as Chairman of the Board of Directors of JSC “State Insurance Corporation for the Insurance of Export Credit and Investment”. From 2004 to 2005, he served as Chairman of the Board of Directors of JSC “Entrepreneurship Development Fund”. From 2006 to 2008, he served as the Deputy Mayor of the City of Astana. From 2007 to 2008, he served as a member of the Board of Directors of JSC “SEC” Sary-Arka. In 2008, Mr. Smagulov worked as the Acting General Secretary of the Eurasian Economic Community. From

2008 to 2010, he served as the Chairman of the Board of Directors of JSC “Kazakhstan Public Private Partnership”. In 2010, Mr. Smagulov became the Chairman of the Company’s Management Board. Mr. Smagulov was appointed to the Company’s Board of Directors on 5 October 2010.

Kanysh Aubakirov

Mr. Aubakirov was born in 1966 and graduated from the Dzerzhinskii Higher School of the Committee of State Security of the USSR in Moscow in 1988 with a qualification in Complex Automated Software and from the Eurasian Market institute in 1999 with a qualification in Management. He began his career working as the Deputy Head of Special Communications at the Main Directorate of the Committee for State Security (now the Federal Agency of Government Communications and Information) in 1988. From 1990 to 1992, Mr. Aubakirov worked as an Informative-Analytical Service Chief Authorized Operative at the Headquarters of the Committee for State Security of the Kazakh Soviet Socialist Republic. From 1997 to 2003, he worked as the General Director of “Samal” LLP. From 2004 to 2006, Mr. Aubakirov worked as the Deputy General Director at Ai San Finance. From 2007 to 2008, he worked as the Deputy Head of the Department of Analysis and Strategic Planning at the Central Office of Committee for State Security of the Kazakh Soviet Socialist Republic. In 2008, Mr. Aubakirov worked as the Deputy Head of the National Security Committee of Kazakhstan in Almaty. From 2008 to 2009, he worked as an Advisor to the General Director of Ai San Finance and as an Independent Director of Reserve Center NBK. From 2009 to 2012, served as the President of the Board of Directors of JSC “Kazakhstan GIS Center”. In 2011, Mr. Aubakirov became the First Deputy President of the Football Federation of Kazakhstan. Mr. Aubaikirov was appointed to the Company’s Board of Directors, as an Independent Director, on 3 March 2012.

Oleg Kalugin

Mr. Kalugin was born in 1967 and graduated from the Group Moscow Institute of Transportation Engineers in 1991 with a qualification in Design Engineering and from the Graduate School of Law “Adilet” in 1996 with a qualification in Law. From 1991 to 1995, he worked as the Deputy Director of “Synthetics” LLP in Almaty. From 1995 to 1998, Mr. Kalugin worked as a Lawyer at “Eurasia Eksportles” JV LLP. From 1998 to 2003, he worked as a lawyer at “Tsvetmetsnab” LLP. From 2003 to 2008, he worked as the Head of the Legal Department of “Copper Technology” LLP. From 2006 to 2009, Mr. Kalugin worked as a Director of “AKSEF” LLP. From 2008 to 2011, he worked as the Deputy Director of “Altai Polymetals” LLP. From 2010 to 2011, Mr. Kalugin served as an Independent Director of JSC “Accumulative Pension Fund Kazakhmys”. Since 2011, he has worked as an independent legal consultant. Mr. Kalugin was appointed to the Company’s Board of Directors, as an Independent Director, on 3 March 2012.

Evgeniy Kazeev

Mr. Kazeev was born in 1964 and graduated from the Marshal of Soviet Union I. Konev Almaty Higher Military Command School in 1986 with a qualification in Maintenance Engineering and from International Kazakh-Turkish State University with a qualification in Law in 1999. From 1986 to 1991, he served in the Armed Forces of Kazakhstan. From 1991 to 1993, Mr. Kazeev worked as the Head of Product Management at the State Logistics Committee of the Kazakh Soviet Socialist Republic. From 1993 to 1995, he worked as the Head of Repair and Maintenance Services at the Almaty Electrical Plant. From 1995 to 2000, Mr. Kazeev worked as Head of Logistics and as Deputy Director of General Affairs at “YuzhKazEnergoremont Co. Ltd” LLP. Since 2000, Mr. Kazeev has worked as the Chief Executive Officer of “Almatyenergoservis” LLP. Mr. Kazeev was appointed to the Company’s Board of Directors, as an Independent Director, on 5 March 2011.

Nartai Dutbayev

Mr. Dutbayev was born in 1959 and graduated from the V.I. Lenin Kazakh Polytechnic Institute in 1978 with a qualification in Automated Engineering Metallurgical Production, from the Higher Courses of the Committee for State Security in Minsk and from the Institute of Higher Education of the Committee for State Security in Moscow in 1982. He began his career as an Engineer at the KazNII “Giprofosfor Institute” in 1978. From 1982 to 1986, Mr. Dutbayev worked as a Junior Security Officer, a Security Officer and then as a Senior Officer at the Committee for State Security in the Stavropol region. From 1986 to 1994, he worked as a Senior Officer, the Chief of Department, the Chief Inspector, the Deputy Chief and then as the Head of Department at the Committee of State Security of the Kazakh Socialist Soviet Republic of Almaty and the Almaty Region. From 1994 to 1997, Mr. Dutbayev worked as the Deputy Head of the Main Organisational and Inspection Department and as the Head of Main Organisational and Inspection Department and then as the Head of the Department of Perspective Development of the National Security Committee of Kazakhstan (the “**National Security Committee**”). In 1997, Mr. Dutbayev worked as the Head of the National Security Committee of the Pavlodar region. From 1998 to 2001, he worked as the Deputy, First Deputy Chairman of the National Security Committee of Kazakhstan. From 1998 to 1999, he worked as the Acting Director of the “Barlau” (foreign intelligence) National Security Committee. In 2001, Mr. Dutbayev was appointed as the Chairman of the National Security Committee. In 2001, he became Lieutenant-General. From 2006 to 2008, he worked as the Head of the Academy of the National Security Committee of Kazakhstan. In 2008, he became an Advisor to the President of Kazakhstan. From 2008 to 2009, Mr. Dutbayev worked as the Deputy President of JSC "National Atomic Company "Kazatomprom". Mr. Dutbayev was appointed to the Company's Board of Directors, as an Independent Director, on 5 April 2013.

The business address of the members of the Company's Board of Directors is the registered office of the Company, namely, 10 Kunayev Street, Esil District, Astana, 010000, Kazakhstan.

Management Board

In accordance with the JSC Law and the Charter, the Company's Management Board is the executive body of the Company and conducts the day-to-day management of the Company. In accordance with the Charter, unless otherwise specified by applicable law, the following matters, among others, fall within the exclusive competence of the Company's Management Board:

- adopting decisions relating to the acquisition or disposition of assets having a value of less than 10% of the total value of the Company's assets;

- approving the Company's budgets within the framework of the development plans approved by the Company's Board of Directors;

- preparing the Company's development strategy, development plans and restructuring programmes for submission to the Company's Board of Directors;

- determining the remuneration for appraisers appointed in the context of a major transaction (as defined under the JSC Law);

- adopting decisions to increase the Company's liabilities by 1% or more of the Company's capital;

- adopting decisions relating to transactions in which the Company has an interest, where the counterparty is part of the Samruk-Kazyna group. (See "*Share Capital, Sole Shareholder, Trust Manager and Related Party Transactions—Related Party Transactions*");

- granting preliminary consideration and approval to issues to be submitted to the Board of Directors and the sole shareholder; and

- adopting decisions on matters within the competence of the general meetings of shareholders or participants of the companies in which the Company holds 10% or more of the shares or interests in such companies, save for matters reserved to the Company's Board of Directors.

As at the date of this Prospectus, the members of the Company's Management Board are:

Name	Other Positions	Date Appointed
Bolat Sovetovich Smagulov (Chairman)	Chairman of the Management Board and Member of the Company's Board of Directors	2 August 2010
Kairat Rakhatovich Tilebaldinov	Deputy Chairman (responsible for investment projects, innovation and engineering)	27 April 2012
Dimash Nurakhmetovich Bizhanov	Deputy Chairman (responsible for overseeing the implementation of policies for the development of the defence industry)	31 May 2011
Adilbek Zeinullayevich Sarsembayev	Deputy Chairman (responsible for the co-ordination of the Company's activities with the Ministry of Industry and New Technologies, the Ministry of Agriculture, the Ministry of Oil and Gas and the Ministry of Transport and Communications, as well as with national companies of Kazakhstan, government agencies and State organisations)	27 October 2010
Adylgazy Sadvokasovich Bergenev	Chief of Administration (responsible for the co-ordination of the Company's administration)	31 May 2011
Yerlan Muratuly Muratov	Deputy Chairman (responsible for corporate governance, asset management, strategy development and internal control and risk management)	4 November 2013

Mr. Vissarion Kim, the former Deputy Chairman of the Company Responsible for Corporate Governance, Asset Management, Strategy Development and Internal Control and Risk Management) passed away in August 2013. Mr. Muratov was appointed as his replacement on 4 November 2013.

Summary biographical information for each member of the Company's Management Board is set out below:

Bolat Smagulov

See "—*Board of Directors—Bolat Smagulov*".

Kairat Tilebaldinov

Mr. Tilebaldinov was born in 1975 and graduated from the T. Ryskulova Kazakh State Management Academy in 1998 with a qualification in Economics and International Affairs, from the Kazakh Humanitarian Law Academy in 2005 with a qualification in Law, from the *Institutode Empresag* in Madrid, Spain in 2008 as part of an international scholarship with a Masters in Business Administration and from the International Management Institute in Brussels, Belgium in 2002 with a Masters in Business Administration. From 2005 to 2006, he worked at KMG as Chief Manager of the "Dunga" and "Dead Kultuk" Project Management Departments. From 2006 to 2007, Mr. Tilebaldinov worked as an Assistant Regional Director at Lukoil Overseas Service Ltd. From 2008 to 2010, he worked as Deputy Chairman of the Board of Directors of JSC "Kazakhstan Public-Private Partnership". From 2010 to 2011, Mr. Tilebaldinov worked as Deputy Bureau Chief of the United Nations Economic Commission for Europe at the Bureau of the PPP-Economic Commission for Europe. From 2010 to 2011, he served as Chairman of the Board of Directors of JSC "Kazakhstan Public-Private Partnership". From 2011 to 2012, Mr. Tilebaldinov served as Deputy Chairman of the Trade Committee of the Ministry of Economic Development and Trade of Kazakhstan. Mr. Tilebaldinov was appointed as a Deputy Chairman of the Company's Management Board on 27 April 2012.

Dimash Bizhanov

Mr. Bizhanov was born in 1967 and graduated from the Al-Farabi Kazakh State National in 1992 with a qualification in Philosophy, from the Abylai Khan Kazakh State University of International Relations and World Languages in 2000 with a qualification in Law and from the ENI S.A. Division Exploration & Production Training Department with a Masters in Petroleum Business in 2007. From 2002 to 2003, he worked as the Manager of the Social and Personnel Policy Department at JSC "Transport of Oil and Gas". From 2002 to 2005, Mr. Bizhanov worked as Assistant President, Chief Manager of Human Resources and as Secretary to the Board of Directors and the Management Board at KMG. In 2005, he worked as Deputy Chief Executive Officer at JSC TenizService. From 2005 to 2010, Mr. Bizhanov worked as Director of the Department of Development of Local Content in Large Oil and Gas Fields, Chief

Manager of the North-Caspian Project Department, Director of the Service Assets Department and as Chief Manager of Service Projects at KMG. Mr. Bizhanov was appointed as a Deputy Chairman of the Company's Management Board on 31 May 2011.

Adilbek Sarsembayev

Mr. Sarsembayev was born in 1978 and graduated from Akmola Finance and Economics College in 1996 with a qualification in Tax Finance, from the Kazakh State Law Academy in 2000 with a qualification in Law and from the S. Seifullin Kazakh State Agro-Technical University in 2005 with a qualification in Economics Management. From 2000 to 2001, Mr. Sarsembayev worked as the Chief Executive Officer of "Specialised Centre of Legal Consulting and Entrepreneurial Initiative Continent" LLP. In 2001, he worked as a Chief Specialist in the Legal Department of the "Department of Administration Programme for the Development of the City of Astana" for State Administration. In 2003, Mr. Sarsembayev worked as the Head of the Department of Administrative and Legal Support at the Committee of Civil Aviation of the Ministry of Transport and Communications of Kazakhstan. From 2003 to 2006, he worked as Head of the Department of Economic Analysis and Monitoring at the Astana Mayor's Office. From 2006 to 2007, Mr. Sarsembayev worked as Chief Inspector of State Control and Organisational Work at the Administration of the President of Kazakhstan. From 2007 to 2008, he served as First Deputy Mayor of the North Kazakhstan region. From 2008 to 2009, Mr. Sarsembayev worked as the Head of the Mayoral Administration of the City of Petropavlovsk in the North Kazakhstan Region State Administration. From 2009 to 2010, he worked as an Entrepreneur. Mr. Sarsembayev was appointed as a Deputy Chairman of the Company's Management Board on 27 October 2010.

Adylgazy Bergenev

Mr. Bergenev was born in 1958 and graduated from Semipalatinsk Financial and Economic College in 1976 with a qualification in Law and from the Semipalatinsk Animal Husbandry and Veterinary Institute in 1987 with a qualification in Zoo Engineering. He began his career as a Tax Inspector in the Borodulikha Semipalatinsk Region of Kazakhstan in 1978. From 1978 to 1981, Mr. Bergenev worked as an Instructor of the Organisation Department of the Borodulikha District Executive Committee of the Semipalatinsk Region. From 1981 to 1983, he served as Chairman of the Executive Committee of the Orlovsky District Board of Deputies of Borodulikha in the Semipalatinsk region. From 1983 to 1984, Mr. Bergenev worked as an Instructor to the Organisation Department of the Borodulikha District Executive Committee of the Semipalatinsk Region. From 1984 to 1986, he worked as an Instructor to the Agriculture Department of the Borodulikha District Committee of the Communist Party of the Semipalatinsk Region. From 1990 to 1991, Mr. Bergenev worked as Chief Tax Inspector of the Borodulikha Tax Office. From 1991 to 1994, he worked as Head of the Tax Inspectorate of Borodulikha. From 1994 to 1995, Mr. Bergenev worked as First Deputy Chief of the Tax Inspectorate of Borodulikha. From 1995 to 1997, he worked as the Head of the Regional Department of the Tax Police in the Semipalatinsk Region. In 1997, Mr. Bergenev served as First Deputy Mayor of the Semipalatinsk Region, and as Acting Mayor of the Semipalatinsk Region. From 1997 to 1998, he served as First Deputy Mayor of the East Kazakhstan Region. In 1998, Mr. Bergenev served as Mayor of Semipalatinsk. From 1999 to 2003, he served as Deputy Mayor of the East Kazakhstan Region. From 2003 to 2007, Mr. Bergenev worked as State Inspector of State Control and Organisational Work of the Administration of the President of Kazakhstan. From 2007 to 2008, Mr. Bergenev served as First Deputy Mayor of the East Kazakhstan Region. From 2008 to 2009, he served as Mayor of the East Kazakhstan Region. Mr. Bergenev was appointed as a Deputy Chairman of the Company's Management Board on 31 May 2011.

Yerlan Muratov

Mr. Muratov was born in 1976 and graduated from the K. Satpayev Kazakh National Technical University in 1988 with a qualification in Electrical Engineering and from the Kazakh Ablai Khan University of International Relations and World Languages in 1998 with a qualification in English Language Consular Services. He began his career as a Translator at the Drilling Department of Tengizchevroil LLP in 2000. In 2001, Mr. Muratov worked as an Operator in the Telecommunications Department of Offshore Kazakhstan International Operating Company. From 2002 to 2006, he worked as an Engineer and Project Manager at Schlumberger Lodelco inc. in Paris, France. From 2006 to 2008, Mr. Muratov worked as a Director of QSP LLP. In 2008, he worked as a Senior Engineer at Schlumberger Lodelco inc. in Paris, France. In 2009, Mr. Muratov worked as a Consultant on Oil and Gas Projects at Oil Consultants Limited in the United Kingdom. From 2009 to 2012, he served as a Director of International Ultimate Training Centre LLP. In 2012, Mr. Muratov worked as the Chief Expert on Monitoring and Control of Electricity-Heat Generating Stations and Heat Generating Installations for the Committee on State Energy Control and Monitoring of the Ministry of Industry and New Technologies of Kazakhstan. From 2012 to 2013, he worked as an Adviser to the Deputy Prime Minister - Minister of Industry and New Technologies of Kazakhstan on industry, service and local content development issues. In 2013, Mr. Muratov was appointed Chairman of the Industry Committee of the Ministry of Industry and New

Technologies of Kazakhstan. Mr. Muratov was appointed as a Deputy Chairman of the Company's Management Board on 4 November 2013.

The business address of the members of the Company's Management Board is the registered office of the Company, namely, 10 Kunayev Street, Esil District, Astana, 010000, Kazakhstan.

Chairman of the Company's Management Board

In accordance with the Trust Management Agreement, the Chairman of the Company's Management Board is appointed by the Ministry of Defence, following consultation with the sole shareholder of the Company.

In accordance with the JSC Law and the Charter, the Chairman of the Company's Management Board is responsible for, among other matters, monitoring the implementation of decisions adopted by the Company's sole shareholder and the Company's Board of Directors.

Corporate Governance

The Company's Code of Corporate Governance, which was adopted by Order of Samruk-Kazyna № 111-p dated 3 September 2007, is constructed upon the following principles:

- the protection of the rights and interests of the sole shareholder;
- the efficient management of the Company by the Company's Board of Directors and the Company's Management Board;
- the independence of the Company's operations;
- the transparency and accurate disclosure of information;
- the compliance with laws and ethical standards;
- an efficient dividend policy;
- an efficient staffing policy;
- the protection of the environment;
- the regulation of corporate conflicts; and
- a concept of responsibility.

Four members of the Company's Board of Directors are independent directors, which is greater than the minimum proportion of independent directors required by the JSC Law. These directors are appointed by the Ministry of Defence, following consultation with the sole shareholder of the Company. See *"Business—Key Strengths"*.

Board of Directors Committees

As at the date of this Prospectus, the Company's Board of Directors has the following committees:

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established to make recommendations to the Company's Board of Directors regarding human resources management, employee motivation policies and nominations to, and remuneration of, the Company's Board of Directors and Internal Audit Service. The Nomination and Remuneration Committee meets twice per quarter or more frequently, as needed.

As at the date of this Prospectus, the members of the Nomination and Remuneration Committee are: Evgeniy Kazeev (Chairman and Independent Director), Kanysh Aubakirov (Independent Director), Oleg Kalvgin (Independent Director) and Gulzhahan Kaisenova.

Strategic Planning and Investment Committee

The Strategic and Planning Investment Committee was established to make recommendations to the Company's Board of Directors regarding the Company's strategy, to review the Company's strategic targets on a regular basis, to monitor changes in economic conditions and the competitive environment and to conduct regular reviews (at least once every six months) of the implementation of the Company's strategy. The Strategic Planning and Investment Committee meets once every two months or more frequently, as needed.

As at the date of this Prospectus, the members of the Strategic Planning and Investment Committee are: Nartai Dutbayev (Chairman and Independent Director), Oleg Kalugin (Independent Director), Evgeniy Kazeev (Independent Director) and Elvira Mami (Expert).

Audit Committee

The Audit Committee was established to facilitate the monitoring of the Company's financial and economic activities, to ensure that there is an adequate system of internal control and risk management in operation and to monitor the activities of the Company's Management Board. The Audit Committee is responsible for the promotion and strengthening of the Company's internal and external audit functions. The Audit Committee meets once per month.

As at the date of this Prospectus, the members of the Audit Committee are Oleg Kalugin (Chairman, Independent Director) and Evgeniy Kazeev (Independent Director).

Management Board Committees

As at the date of this Prospectus, the Company's Management Board has the following committees:

Budgeting Committee

The Budgeting Committee was established to review, make recommendations in respect of, and approve the Company's subsidiaries' budgets and development plans, as well as any changes thereto. The Budgeting Committee meets at least annually or more frequently, as needed.

As at the date of this Prospectus, the members of the Budgeting Committee are: the Deputy Chairman of the Company Responsible for Corporate Governance, Asset Management, Strategy Development and Internal Control and Risk Management (Chairman), the Chief Financial Officer (Deputy Chairman), the Head of the Investment Projects Department, the Head of the Risk Management and Internal Control Department (or, in his absence, the Head of the Corporate Department), the Head of the Administrative Department, the Head of the Department of Planning and Economic Analysis, the Managing Director of the Defence Department and the Managing Director of the Civil Department.

Credit Committee

The Credit Committee was established to review and make recommendations to the Company's Management Board in respect of requests for loans and other financial assistance (such as guarantees) from the Company's subsidiaries, including loans and assistance from third parties; to monitor the performance of such loans and financial assistance; to monitor the assets and liabilities, revenues and financial risks applicable to the Company's subsidiaries; and to monitor compliance with the borrowing limits set forth in the Group's and Samruk-Kazyna's credit policies. The Credit Committee also reviews and makes recommendations to the Company's Management Board in respect of proposed investment projects. The Credit Committee meets on an *ad hoc* basis, as needed.

As at the date of this Prospectus, the members of the Credit Committee are: the Chief Financial Officer, the Managing Director of the Oil and Gas Department (Deputy Chairman), the Managing Director of the Investment Projects and Innovation and Engineering Departments, the Managing Director of the Legal Department, the Chief Manager of the Risk Management Department and the Head of the Department of Planning and Economic Analysis.

Investment and Innovation Committee

The Investment and Innovation Committee was established to review and make recommendations to the Company's Management Board in respect of proposed investment projects. The Investment and Innovation Committee also monitors the compliance of an investment project with its business plan and any feasibility study. The Investment and Innovation Committee meets on an *ad hoc* basis, as needed.

As at the date of this Prospectus, the members of the Investment and Innovation Committee are the Deputy Chairman Responsible for Investment Projects, Innovation and Engineering (Mr. Kairat Tilebaldinov, Chairman), the Managing Director of the Oil and Gas Department (Deputy Chairman), the Managing Director of the Defence Department, the Managing Director of the Asset Management, Strategic and Corporate Development Department, the Managing Director of the Legal Department and either the Head of the Department of Corporate Finance and Accounting or the Head of the Department of Planning and Economic Analysis, depending on the project under consideration.

Internal Audit Service

The Internal Audit Service assists the Company's Board of Directors and the Company's Management Board. The Head of the Internal Audit Service and its members are appointed by the Company's Board of Directors with the prior approval of the Audit Committee. The Internal Audit Service has the right to convene an extraordinary meeting of the Company's Board of Directors on issues within the ambit of the Internal Audit Service.

The Internal Audit Service audits the Company's risk management processes to examine their adequacy and the Company's compliance with the established risk policies, procedures and limits. The Company's Internal Audit Service reports its findings and recommendations directly to the Company's Board of Directors.

As at the date of this Prospectus, the Internal Audit Service comprises five members and the Head of the Internal Audit Service is Kairat Sabitov.

Management Remuneration

The amounts and terms of remuneration (including salaries, bonuses and other benefits) for the Chairman and the members of the Company's Management Board are determined by the Company's Board of Directors. Similar regulations on salaries for members of the Company's Management Board and employees are applied across the Company's key subsidiaries.

Total compensation to key management personnel amount to KZT 142.9 million for the six months ended 30 June 2013, KZT 171.4 million for the six months ended 30 June 2012, KZT 225.0 million for the year ended 31 December 2012, KZT 134.7 million for the year ended 31 December 2011 and KZT 66.8 million for the year ended 31 December 2010.

As at 30 June 2013, there were no outstanding loans or guarantees granted by the Company to any member of the Company's Board of Directors or the Company's Management Board or to any parties related to them.

Employees

As at 30 June 2013, the total number of employees of the Group was 6,259 people. The following table sets forth certain information regarding the Group's employees, by key subsidiary:

	As at 30 June	As at 31 December		
	2013	2012	2011	2010
The Company	80	80	65	65
JSC Tynys	755	663	604	560
JSC Uralsk Plant Zenit	924	909	916	860
JSC Semey Engineering	571	520	145	135
JSC Kirov S.M. Plant	679	566	552	405
JSC Omega Instrument Making Plant	177	179	163	177
JSC Petropavlovsk Heavy Machinery Building Plant	1,215	1,137	1,155	1,202
JSC Semipalatinsk Machinery Construction	211	168	176	153
JSC Munaymash	138	139	136	131
JSC KazEng Electronics	106	102	93	91
JSC Research Institute Hydropribor	137	127	135	101
JSC 811 Motor Repair Plant KE	106	122	128	107
JSC S.M. Kirov Plant	231	334	389	375
Other	929	1,412	73	38
Total Group employees	**6,259**	**6,458**	**4,730**	**4,400**

The Group does not currently have plans to significantly increase or decrease the total number of employees within the Group.

Employees of the Company and its subsidiaries are remunerated by salaries and discretionary performance-related bonuses awarded on an annual basis. Employees' salaries are either calculated on the basis of hours worked or on the level of production at the relevant facility. As part of its employee incentive and retention strategy, the Group pays for medical insurance for its employees.

The Group does not provide or contribute to any private pension plans. There is, however, a state pension scheme in Kazakhstan pursuant to which the Group withholds a portion of each employee's monthly salary (depending on the relevant employee's time to retirement age) and pays this amount to the state pension scheme. This amount is then apportioned to an account in the name of the relevant employee and can be drawn-down once the employee reaches retirement age.

In accordance with Samruk-Kazyna's personnel policy, the Company provides a range of training opportunities for the Group's employees, including training relating to IFRS to those of its employees that are involved in procurement procedures, administration, risk management, accounting, planning and budgeting. Each employee's training programme is developed in accordance with their personal development plan. Training programmes are co-ordinated by the Company and are often conducted in accordance with Samruk-Kazyna and a number of universities.

As at the date of this Prospectus, approximately 58% of the Group's employees are members of the Machine Building Trade Union.

In 2011, an agreement regulating certain labour matters for the machinery-building industry for the period from 2011 to 2013 was concluded among the Ministry of Industry and New Technologies of Kazakhstan, the Company and its subsidiaries and the Machine Building Trade Union (the "**Industry Agreement**"). The majority of the Group's employees have subscribed to the terms of the Industry Agreement. The Industry Agreement is in line with the framework set forth in the Labour Code of Kazakhstan and aims to: (i) stabilise the operation of organisations and comprises within the machinery industry; (ii) set certain conditions relating to productivity, the improvement of standards of living for workers in the machinery industry and the training and re-training of such workers; (iii) determine minimum industry wages and compensation payments and identify certain measures to protect the rights and interests of workers in the machinery industry; and (iv) develop a social partnership based on trust, communication and cooperation. A new Industry Agreement for 2014 to 2016, on substantially the same terms as the existing Industry Agreement, is being finalised and is expected to be entered into by the end of November 2013.

The Group has not experienced any labour disputes since the incorporation of the Company in 2003 and believes its relations with its employees to be good.

Conflicts of Interest

The Company believes that there are no potential conflicts of interest between any duties owed to the Company by the members of Company's Board of Directors and the Company's Management Board and their private interests or other duties.

SHARE CAPITAL, SOLE SHAREHOLDER, TRUST MANAGER AND RELATED PARTY TRANSACTIONS

Share Capital

As at each of 30 June 2013 and 31 December 2012, the Company's outstanding share capital consisted of 12,101,802 ordinary shares, all of which are issued and fully paid. Each ordinary share carries one vote. The sole shareholder of the Company is Samruk-Kazyna.

Since June 2010, the shares of the Company are managed by the Ministry of Defence in accordance with the Trust Management Agreement. Pursuant to the Trust Management Agreement, the Ministry of Defence exercises Samruk-Kazyna's shareholder rights and obligations in accordance with the JSC Law, save certain rights reserved to Samruk-Kazyna. In particular, the Trust Management Agreement provides that the Ministry of Defence has the competence to: (i) appoint, or terminate the appointment of, members of the Company's Board of Directors; and (ii) appoint, or terminate the appointment of, the Chairman of the Company's Management Board, in each case, following consultation with Samruk-Kazyna. See "*—Ministry of Defence*" and "*Management and Employees—Sole Shareholder and Trust Management*".

Samruk-Kazyna

Samruk-Kazyna is wholly owned by the Government and is the national managing holding company for substantially all State enterprises. Samruk-Kazyna was created in 2008 pursuant to Presidential Edict № 669 dated 13 October 2008 and Government Resolution № 962 dated 17 October 2008 by way of the merger of JSC Kazakhstan Holding for Management of State Assets Samruk and JSC Sustainable Development Fund Kazyna. Samruk-Kazyna is a joint stock company whose shares are held by the Privatisation Committee. In November 2011, Samruk-Kazyna acquired the 39.01% of the shares in the Company previously held by the Privatisation Committee. Accordingly, as at the date of this Prospectus, Samruk-Kazyna is the sole shareholder of the Company.

Samruk-Kazyna's primary objective is to manage the shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing the competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance rules applicable to all joint stock companies in Kazakhstan. Under Samruk-Kazyna's corporate governance structure the Government, as the sole shareholder, constitutes the supreme governing body; the board of directors constitutes the managing body; and the management board constitutes the executive body of Samruk-Kazyna.

Members of Samruk-Kazyna's board of directors are appointed by the Government and include, among others, the Minister of Economic Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan. See "*Management and Employees—Sole Shareholder and Trust Management*".

Ministry of Defence

Pursuant to the Trust Management Agreement, the shares of the Company are managed by the Ministry of Defence. The Ministry of Defence is the central executive body within the Government responsible for the State defence policy and the Kazakhstan Army.

The main objectives of the Ministry of Defence are to: (i) implement the State's defence policy, including a single military and technical policy for Kazakhstan; (ii) monitor the operations and governance (both economic and military) of the Kazakhstan Army; (iii) maintain the readiness of the Kazakhstan Army, and the security and State defence and military facilities; (iv) protect Kazakhstan airspace; and (v) oversee compliance with Kazakhstan's international treaty obligations.

In furtherance of the above objectives, the Ministry of Defence performs the following functions (among others): (i) implementing a single military and technological policy for the defence industry; (ii) developing State programmes for the defence industry; (iii) developing plans for the preparation, placement and performance of matters of State defence; (iv) preparing orders relating to State defence, submitting the same to the Government and providing details of such orders to customers and contractors; and (v) co-ordinating and controlling the implementation of defence orders.

Dividend Policy

Dividends paid by the Company to its Shareholder

Samruk-Kazyna has implemented a dividend policy in respect of the Company, whereby the amount of dividends that the Company pays will be set based on how the Company performs against certain predetermined performance ratios, the amount of shareholder distributions made during the relevant year (*i.e.*, capital contributions and any commitments undertaken by the Company on behalf of Samruk-Kazyna) and investment projects approved by Samruk-Kazyna, as well as costs for the Company's scientific and research and development activities. The minimum amount of dividends to be paid under the dividend policy is 15% of the Company's net profits per year.

In December 2012, the Company paid dividends of KZT 743.2 million to Samruk-Kazyna in respect of the year ended 31 December 2011.

According to the decision of Samruk-Kazyna № 39/12 dated 2 October 2012, the dividend to be paid by the Company in respect of the year ended 31 December 2012 was the minimum amount of 15%, or KZT 678.3 million. This dividend is expected to be paid in December 2013.

Dividends paid by the Company's Subsidiaries to the Company

In 2011, the Company adopted a dividend policy in respect of its subsidiaries for 2011 to 2015, which permits the Company to receive dividends ranging from between 25% to 100% of the relevant subsidiary's net profits. The amount of dividend to be paid by each subsidiary will depend upon a number of factors, including the profitability of the relevant subsidiary and its capital expenditure needs. In general, dividends paid by Group companies to the company range from 25% to 50% of the net profits of the relevant subsidiary. Amounts not paid as dividends are reinvested in the relevant Group company.

Related Party Transactions

Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties include associates, subsidiaries and jointly controlled entities of the Company and the sole shareholder of the Group, as well as subsidiaries of the sole shareholder and state-owned entities, ministries and agencies. Companies in the Group regularly enter into transactions with other companies in the Samruk-Kazyna group, as well as other State-owned companies, national companies and entities, which are deemed to be related parties to the Company.

For the six months ended 30 June 2013, revenue from sales to related parties accounted for 49.1% of total revenue, as compared to 51.9% for the six months ended 30 June 2012. For the year ended 31 December 2012, revenue from sales to related parties accounted for 82.9% of total revenue, as compared to 78.0% for the year ended 31 December 2011 and 68.0% for the year ended 31 December 2010.

The table below sets forth details of the revenue from sales to related parties and expenses from services rendered and goods acquired from related parties for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December		
	2013 (unaudited)	2012 (unaudited)	2012	2011	2010
			(KZT millions)		
Revenue from sales to related parties					
JSC NC KazMunayGas	3,116.6	2,310.2	5,794.7	3,450.7	3,332.9
JSC NC Kazakhstan Temir Zholy	2,356.5	2,236.9	4,693.8	3,989.0	2,741.6
Ministries and agencies	1,338.5	542.1	32,279.1	17,925.5	4,472.9
JSC NAC Kazatomprom	5.0	121.5	118.5	801.1	27.4
JSC Kazpost	—	—	—	50.0	0.5
LLP Repair Corporation Kamkor	—	—	362.1	—	183.1
Other	2.4	266.7	7.8	4.1	34.5
Total	**6,819.0**	**5,477.3**	**43,256.1**	**26,220.5**	**10,793.0**
Expenses from services rendered and goods acquired from related parties					
JSC NC Kazakhstan Temir Zholy	167.4	545.8	204.5	213.9	177.1
JSC Samruk Energy	58.8	45.2	53.3	53.9	63.3
Ministries and agencies	32.7	32.7	—	—	—
JSC NC KazMunayGas	77.4	30.0	42.5	16.4	22.6
JSC Kazakhtelecom	11.6	12.4	5.0	5.6	36.7
Eurocopter Kazakhstan Engineering LLP	—	—	13,478.5	10,583.1	—
JSC Aviarepair plant № 405	—	—	573.6	—	—
LLP Repair Corporation Kamkor	—	—	—	—	134.8
Other	18.2	4.9	0.9	1.0	33.8
Total	**366.0**	**671.1**	**14,358.4**	**10,873.9**	**468.4**

See also Note 33 to the Interim Financial Statements, Note 37 to the 2012 Financial Statements and Note 32 to the 2011 Financial Statements.

Under Kazakhstan law, transactions with related parties should be approved by the relevant Company's Board of Directors by a majority of votes of non-interested directors. If all members of the relevant Company's Board of Directors are interested in a transaction or there is a lack of the required number of votes for approval of a transaction with a related party, a decision should be adopted by the relevant Company's General Meeting of Shareholders by a majority of votes not interested in the transaction, or by the sole shareholder, as the case may be. The decision is adopted by a majority of votes of the General Meeting of Shareholders if all members of the Board of Directors and all members of the General Meeting of Shareholders are interested in a transaction.

There is a less onerous procedure for approval of transactions with related parties concluded between companies within the Samruk-Kazyna group, which includes most of the companies within the Group. Accordingly, transactions entered into between the Group and the companies of the Samruk-Kazyna group should be approved by the Management Board of the relevant Group company by not less than three quarters of its elected members.

Samruk-Kazyna has extended two preferential rate loans to the Company. See "*Business—Sources of Funding—Material Borrowings—Loans from Samruk-Kazyna*", Note 16 to the Interim Financial Statements and Note 19 to the 2012 Financial Statements.

Otherwise, transactions undertaken by the Group with related parties are mainly conducted in the ordinary course of business and on an arm's length basis

USE OF PROCEEDS

The net proceeds of the issue of the Notes, which are expected to amount to approximately U.S.$[•], will be used for the Issuer's general corporate purposes, which will include refinancing, retiring or otherwise restructuring existing indebtedness.

TAXATION

The following is a general description of certain Kazakhstan and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their tax advisers as to the consequences of a purchase of Notes, including but not limited to the consequences of receipt of interest and of a sale or redemption of the Notes. This summary is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kazakhstan

Interest

Payments of interest on the Notes to an individual who is not a resident of Kazakhstan for tax purposes or to a legal entity that is neither established under Kazakhstan law, nor has its actual governing body (place of actual management), nor maintains a permanent establishment in Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will be subject to withholding tax at a rate of 15%, unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime and which appear in a list published from time to time by the Government (these countries currently include Cyprus, Liechtenstein, Luxembourg, Nigeria, Malta, Monaco, Belize and others) will be subject to withholding of Kazakhstan tax at a rate of 20%, unless reduced by an applicable double taxation treaty.

The Conditions provide that the Issuer will gross up any payments under the Notes to the extent that such payments are subject to withholding tax. See "*Terms and Conditions of the Notes—8. Taxation*".

Payment of interest on the Notes to residents of Kazakhstan or to non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15%.

Under Kazakhstan legislation in effect as of the date of this Prospectus, the withholding tax on interest mentioned above would not apply if the Notes are included, as at the date of accrual of interest, on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE).

Gains

Gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%. If the transferor is registered in a country with a favourable tax regime, as referred to above, gains derived from such a disposal are subject to withholding tax in Kazakhstan at the rate of 20%. The withholding tax must be withheld by the payers of income, if such payers are residents of Kazakhstan for tax purposes or non-residents who either have a registered branch or representative office in Kazakhstan or maintain a permanent establishment in Kazakhstan. Such payers are considered to be tax agents for Kazakhstan tax purposes. However, Kazakhstan tax legislation does not clearly define procedures for the collection of withholding tax where payment is made by a non-resident without a registered branch, representative office or a permanent establishment in Kazakhstan, and it is not clear if such a non-resident may be treated as a tax agent for Kazakhstan tax purposes.

Withholding tax on the gains realised by a Non-Kazakhstan Holder may be reduced or eliminated under an applicable double taxation treaty.

Any gains realised by Non-Kazakhstan Holders in relation to Notes which are listed as of the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) or a foreign stock exchange (such as the Irish Stock Exchange) and sold through open trades on such stock exchanges are not subject to withholding tax.

Any gains derived by Kazakhstan Holders in relation to the Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) and sold through open trades on such stock exchange are not subject to Kazakhstan income tax.

EU Savings Directive

Under the Savings Directive, Member States of the European Union are required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction (a “**paying agent**”) to or for the benefit of an individual resident or to or for the benefit of certain other persons in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), unless during that period they elect otherwise, to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Luxembourg government has announced its intention to opt out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date as the Savings Directive.

If a payment were to be made or collected through a Member State, which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. See “*Terms and Conditions of the Notes—8. Taxation*”. For so long as any Note is outstanding, the Issuer undertakes to maintain a paying agent in a Member State of the European Union that does not impose an obligation to withhold or deduct tax pursuant to the Savings Directive. See “*Terms and Conditions of the Notes—7. Payments*”.

SUBSCRIPTION AND SALE

Each of JSC Halyk Finance, UBS AG, London Branch and VTB Capital plc has, pursuant to a subscription agreement dated [•] 2013 (the "**Subscription Agreement**") among the Issuer and the Managers, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at an issue price of [•]% of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission upon the closing of the offering of the Notes and, subject to certain limitations, to reimburse the Managers for their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed in the Subscription Agreement to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes.

The Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Managers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time, for which they may have received customary fees and expenses.

In the ordinary course of their various business activities, certain of the Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivatives securities) and financial instruments for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer or its affiliates (including its shareholders).

General

No action has been, or will be, taken in any jurisdiction by the Managers or the Issuer that would, or is intended to, permit a public offering of the Notes, or the possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where any action for that purpose is required. Each Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that it has not offered or sold and agrees that it will not offer or sell any Notes within the United States, except as permitted by the Subscription Agreement.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Terms used in this sub-section have the meaning given to them by Regulation S.

United Kingdom

Each Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

Each Manager has severally (and not jointly or jointly and severally) represented and agreed in the Subscription Agreement that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for, purchase or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the applicable laws of Kazakhstan and KASE regulations.

GENERAL INFORMATION

1. Application has been made to list the Notes on the Official List of the Irish Stock Exchange by the Issuer, through Arthur Cox Listing Services Limited. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive. It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Main Securities Market will be granted on or about [•] 2013. The Issuer has made an application to the KASE for the Notes to be admitted to the official list of the KASE. On 27 September 2013, the KASE granted its consent for the admission of the Notes to the "rated debt securities" category of the official list of the KASE, which is expected to become effective on [•] 2013. Transactions are normally effected for delivery on the third working day after the day of the transaction. The total expenses related to the admission to trading of the Notes are approximately [•].

2. The Issuer has obtained all necessary consents, approvals and authorisations in Kazakhstan in connection with the issue and placement of, and performance of its obligations under, the Notes outside of Kazakhstan, including the FMSC Permissions. The issue of the Notes was authorised by the resolution of the Management Board of the Issuer passed on 2 August 2013, the resolution of the Board of Directors of the Issuer passed on 29 August 2013 and the resolution of the Board of Directors of the Issuer passed on 4 November 2013.

3. There has been no significant change in the financial or trading position of the Issuer or of the Group since 30 June 2013 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2012.

4. Neither the Issuer nor any of its subsidiaries is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.

5. The yield of the Notes is [•]% *per annum*. The yield is calculated as at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Notes is: [•]. The International Securities Identification Number (ISIN) for the Notes is [•]. [The Notes have also been accepted for clearance through JSC Central Securities Depositary (Kazakhstan).]

7. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

8. There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Issuer's group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes being issued.

9. For so long as the Notes are outstanding, electronic copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:

   (a) the Trust Deed;

   (b) the Charter of the Issuer;

   (c) the Financial Statements; and

   (d) a copy of this Prospectus, together with any supplement to this Prospectus.

   In addition, this Prospectus will be published on the website of the Issuer at www.ke.kz and a copy of this Prospectus is available on the Central Bank's website at www.centralbank.ie.

10. Deloitte LLP have audited, and rendered unqualified audit reports on, the Audited Financial Statements. Deloitte LLP have reviewed, and rendered an unqualified review report on, the Interim Financial Statements. Deloitte LLP acted as auditors under State Licence № 0000015, type MFU-2, issued by the Ministry of

Finance of Kazakhstan. Deloitte LLP is a member of the Chamber of Auditors of Kazakhstan, the professional body which oversees audit firms in Kazakhstan. See “*Presentation of Financial and Certain Other Information*”.

FINANCIAL STATEMENTS

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

Interim condensed consolidated financial statements
for the six months
ended 30 June 2013 (unaudited)

CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

Management of JSC Kazakhstan Engineering National Company ("the Company") and its subsidiaries ("the Group") is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the consolidated financial position as at 30 June 2013, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- maintaining accounting records in compliance with International Financial Reporting Standards ("IFRS") and the legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

These interim condensed consolidated financial statements for the six months ended 30 June 2013 were approved and authorized for issue by management of JSC Kazakhstan Engineering National Company on 5 August 2013.

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director

Bolat Mukushev
Director of Corporate Finance and Accounting Department – Chief Accountant

5 August 2013
Astana, Kazakhstan

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Joint Stock Company Kazakhstan Engineering National Company ("the Company") and its subsidiaries (collectively referred to as "the Group") as at 30 June 2013 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management of the Group is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of the interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34.

DELOITTE, LLP

5 August 2013
Almaty, Kazakhstan

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSTITION AS AT 30 JUNE 2013 (UNAUDITED)

(in thousands of tenge)

	Notes	30 June 2013 (unaudited)	31 December 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	11,475,503	10,146,158
Investment property		40,435	45,196
Intangible assets		230,484	212,306
Long-term investments		4,417	4,417
Investments in associates and joint ventures	7	3,788,922	4,267,076
Deferred tax assets		147,843	213,691
Other non-current assets	8	385,962	1,063,235
Total non-current assets		16,073,566	15,952,079
CURRENT ASSETS:			
Inventories	9	15,554,779	10,887,246
Trade accounts receivable	10	3,993,508	1,817,049
Income tax prepaid		685,271	146,397
Other taxes recoverable	11	1,349,166	641,505
Restricted cash		-	87,062
Other current assets	12	11,627,254	6,296,234
Cash and cash equivalents	13	15,269,901	10,114,635
		48,479,879	29,990,128
Non-current assets classified as held-for-sale		1,832	1,832
Total current assets		48,481,711	29,991,960
TOTAL ASSETS		64,555,277	45,944,039
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	14	12,101,802	12,101,802
Additional paid-in capital	15	841,018	743,301
Retained earnings		7,424,284	7,696,411
Equity attributable to Owner of the Company		20,367,104	20,541,514
Non-controlling interests		628,321	561,383
Total equity		20,995,425	21,102,897
NON-CURRENT LIABILITIES:			
Loans	16	216,057	462,327
Debt securities issued	17	14,190,123	4,327,836
Deferred tax liabilities		673,358	639,649
Debt component of preferred shares		205,072	205,072
Finance lease obligations	18	926,990	1,415,843
Other non-current liabilities	19	1,440,458	218,216
Total non-current liabilities		17,652,058	7,268,943

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013 (UNAUDITED, CONTINUED)

(in thousands of tenge)

	Notes	30 June 2013 (unaudited)	31 December 2012
CURRENT LIABILITIES:			
Loans and current portion of long-term loans	16	7,328,286	6,220,430
Current portion of debt securities issued	17	112,450	34,005
Current portion of finance lease obligations	18	143,449	345,031
Financial liabilities at fair value through profit or loss	18	-	204,370
Trade accounts payable	20	2,762,674	3,911,553
Income tax payable		35,434	236,113
Other taxes payable		616,335	1,427,207
Other current liabilities	21	14,909,166	5,193,490
Total current liabilities		25,907,794	17,572,199
TOTAL EQUITY AND LIABILITIES		64,555,277	45,944,039

Signed on behalf of management of the Group:

Aliya Zhetenova
Managing Director

Bolat Mukushev
Director of Corporate Finance and Accounting Department – Chief Accountant

5 August 2013
Astana, Kazakhstan

The notes on pages 9-28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)

(in thousands of tenge)

	Notes	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
REVENUE	23	13,894,007	10,550,669
COST OF SALES	24	(10,977,881)	(8,263,061)
GROSS PROFIT		2,916,126	2,287,608
General and administrative expenses	25	(1,807,315)	(1,458,213)
Selling expenses	26	(531,018)	(299,711)
Other profit and losses	27	319,582	235,530
Foreign exchange gain/(loss), net		27,065	(14,015)
Share of losses in associates and joint ventures		(90,230)	(166,047)
Profit/(loss) on financial liabilities at fair value through profit and loss		66,199	(16,462)
Finance income	28	277,726	449,340
Finance costs	29	(628,369)	(318,765)
PROFIT BEFORE INCOME TAX		549,766	699,265
INCOME TAX EXPENSES	22	(76,610)	(97,549)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		473,156	601,716
Net profit and total comprehensive income attributable to:			
Owner of the Company		406,218	529,699
Non-controlling interests		66,938	72,017
		473,156	601,716

Signed on behalf of management of the Group:

Aliya Zhetenova
Managing Director

Bolat Mukashev
Director of Corporate Finance and Accounting Department – Chief Accountant

5 August 2013
Astana, Kazakhstan

The notes on pages 9-28 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)

(in thousands of tenge)

	Notes	Share capital	Additional paid-in capital	Retained earnings	Equity attributable to Owner of the Company	Non-controlling interests	Total
At 1 January 2012		12,101,802	522,835	3,874,545	16,499,182	573,174	17,072,356
Net profit and total comprehensive income for the period (unaudited)		-	-	529,699	529,699	72,017	601,716
Fair value adjustment of the loan from the Shareholder at below-market interest rate, less deferred tax effect of KZT 34,752 thousand (unaudited)	16	-	139,006	-	139,006	-	139,006
Dividends distributed (unaudited)	14	-	-	(48,352)	(48,352)	-	(48,352)
At 30 June 2012 (unaudited)		12,101,802	661,841	4,355,892	17,119,535	645,191	17,764,726
At 1 January 2013		12,101,802	743,301	7,696,411	20,541,514	561,383	21,102,897
Net profit and total comprehensive income for the period (unaudited)		-	-	406,218	406,218	66,938	473,156
Fair value adjustment of the loan from the Shareholder at below-market interest rate, less deferred tax effect of KZT 24,249 thousand (unaudited)	15,16	-	97,717	-	97,717	-	97,717
Dividends distributed (unaudited)	14	-	-	(678,345)	(678,345)	-	(678,345)
At 30 June 2013 (unaudited)		12,101,802	841,018	7,424,284	20,367,104	628,321	20,995,425

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director

Bolat Muktushev
Director of Corporate Finance and Accounting Department – Chief Accountant

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

5 August 2013
Astana, Kazakhstan

The notes on pages 9-28 form an integral part of these interim condensed consolidated financial statements.

JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNDAUDITED)

(in thousands of tenge)

	Notes	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
OPERATING ACTIVITIES:			
Profit before income tax		549,766	699,265
Adjustments for:			
Amortisation and depreciation		296,445	297,436
Gain from disposal of property, plant and equipment	27	(6,631)	(145,647)
Allowance for doubtful debts		300	-
Allowance for slow moving inventories		(440)	-
Foreign exchange (gain)/loss		(27,065)	14,015
Share of losses in associates and joint ventures	7	90,230	166,047
(Gain)/loss on financial liabilities at fair value through profit and loss		(66,199)	16,462
Warranty provision		(282,687)	-
Unused vacation provision		(124,330)	-
Other provisions		(87,052)	-
Finance income	28	(277,726)	(449,340)
Finance costs	29	628,369	318,765
Cash flows from operations before changes in working capital		692,980	917,003
Changes in working capital:			
Change in inventories		(4,576,620)	(7,920,219)
Change in trade accounts receivable		(2,176,759)	(784,681)
Change in value added tax and other taxes recoverable		(707,661)	(689,523)
Change in other assets		(4,268,979)	(16,314,930)
Change in trade accounts payable		(1,151,631)	108,074
Change in taxes payable		(881,292)	(833,732)
Change in other liabilities		10,596,953	27,946,944
Cash (used in)/generated by operating activities		(2,473,009)	2,428,936
Interest paid		(561,472)	(273,928)
Income tax paid		(670,615)	(175,050)
Net cash (used in)/generated by operating activities		(3,705,096)	1,979,958
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	6	(1,040,326)	(782,569)
Purchase of intangible assets		(3,484)	(7,544)
Loans issued		-	(883,328)
Proceeds from disposal of property, plant and equipment		4,923	161,713
Placement of bank deposits		(243,602)	-
Acquisition of short-term investments		-	(172,982)
Net cash used in investing activities		(1,282,489)	(1,684,710)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED, CONTINUED)

(in thousands of tenge)

	Notes	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
FINANCING ACTIVITIES:			
Proceeds from debt securities issued		10,014,018	-
Proceeds from loans received		4,761,875	5,342,838
Other receipts		308	-
Loans repaid		(3,906,572)	(679,743)
Finance lease repaid		(664,115)	(14,014)
Dividends paid		(62,663)	(48,352)
Net cash generated by financing activities		10,142,851	4,600,729
NET CHANGE IN CASH AND CASH EQUIVALENTS		5,155,266	4,895,977
CASH AND CASH EQUIVALENTS, at the beginning of the period	13	10,114,635	3,485,674
CASH AND CASH EQUIVALENTS, at the end of the period	13	15,269,901	8,381,651

Signed on behalf of management of the Group:

Aliya Zhetenova
Managing Director

Bolat Mukusheev
Director of Corporate Finance and Accounting Department – Chief Accountant

5 August 2013
Astana, Kazakhstan

The notes on pages 9-28 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL INFORMATION

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

As at 30 June 2013 and 31 December 2012, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna ("the Shareholder"). As at 30 June 2013 and 31 December 2012, the Company's shares were under asset management with the Ministry of Defence of the Republic of Kazakhstan.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are:

- participation in state policy on development, production, realisation and liquidation of goods and equipment of defence, civil and dual purpose;
- participation in development and realisation of current and long-term inter-industry development and production programs of defence and dual purpose products for supply with internal needs and export;
- production and import of armament, military equipment and dual purpose products for armed forces and other military services of the Republic of Kazakhstan and for export;
- development and realisation of conversion programs and defence-production complex programs;
- participation in execution of state defence orders, formation 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.

As at 30 June 2013, the Group's structure has not changed in comparison with the structure as at 31 December 2012 (Note 7).

As at 30 June 2013 and 31 December 2012, the Group also had investments in associates and joint ventures, as described in Note 7.

Legal address: 10, Kunayev str., Astana, Republic of Kazakhstan

As at 30 June 2013, the Group had 6,259 employees (31 December 2012: 6,458 employees).

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 were approved by management on 5 August 2013.

Operating environment

Emerging markets such as the Republic of 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 the Republic of Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic 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.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations effective for the current period

The Group has applied retrospectively a package of five Standards on consolidation, joint arrangements, associates and disclosures, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest 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*.

- **IFRS 10 *Consolidated Financial Statements*** replaced the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* is withdrawn. Under IFRS 10 *Consolidated Financial Statements*, there is only one basis for consolidation, that is, control. In addition, IFRS 10 *Consolidated Financial Statements* includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 *Consolidated Financial Statements* to deal with complex scenarios.

The Group assessed whether the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013.

If the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013, the immediately preceding comparative period (i.e. financial period beginning 1 January 2012) is restated to be consistent with the accounting conclusion under IFRS 10 *Consolidated Financial Statements*, unless impracticable. Any difference between IFRS 10 *Consolidated Financial Statements* carrying amounts and previous carrying amounts on 1 January 2012 is adjusted to equity.

For investees, whose consolidation conclusion under new standards as at 1 January 2013 has not changed, no adjustment to previous accounting has been made.

The Group assessed that initial adoption of IFRS 10 *Consolidated Financial Statements* did not result in consolidation or deconsolidation of any subsidiaries, associates and joint ventures.

- **IFRS 11 *Joint Arrangements*** replaced IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* is withdrawn. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting. Adoption of IFRS 11 *Joint Arrangements* did not result in changes to the Group's interim condensed consolidated financial statements.

- **IFRS 12** ***Disclosure of Interests in Other Entities*** is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. Adoption of IFRS 12 *Disclosure of Interests in Other Entities* resulted in more extensive disclosures (Note 7).

- **IFRS 13** ***Fair Value Measurement*** establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. Adoption of IFRS 13 *Fair Value Measurement* resulted in more extensive disclosures (Note 32).

- **The amendments to IAS 19** ***Employee Benefits*** change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 *Employee Benefits* are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. Application of the Amendments to IAS 19 *Employee Benefits* did not result in significant changes to the Group's interim condensed consolidated financial statements.

- **The amendments to IAS 1** ***Presentation of Financial Statements*** require items of other comprehensive income to be grouped into two categories: (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 have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Several other amendments including amended IFRS 7 *Financial Instruments: Disclosures "Disclosures – Offsetting Financial Assets and Financial Liabilities"* and amendments resulting from "Annual Improvements to IFRSs" (2009-2011 cycle) were applied for the first time in these interim condensed consolidated financial statements. Application of these amendments did not result in significant changes to the Group's financial position or results of operations.

Standards and Interpretations in issue but not yet effective

At the date of authorization of these interim condensed consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

- IFRS 7 *Financial Instruments: Disclosures* – amendments that require disclosing information about initial adoption of IFRS 9 (effective for reporting periods starting from 1 January 2015);
- IFRS 9 *Financial Instruments* (effective for reporting periods starting from 1 January 2015);
- IAS 32 *Financial Instruments: Presentation* – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements (effective for reporting periods starting from 1 January 2014);

Management of the Group anticipates that the adoption of all of the above Standards, amendments to them and Interpretations, if applicable, in future periods will not have a material impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compliance statement

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34 *Interim financial reporting* ("IAS 34").

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2012 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequent to the issuance of the Company's annual consolidated financial statements for 2012 prepared in accordance with IFRS.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's annual consolidated financial statements for 2012 prepared in accordance with IFRS. In the opinion of management, these interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the Group's financial position, results of operations, statements of changes in equity and cash flows for the interim reporting periods.

Basis of preparation

These interim condensed consolidated financial statements of the Group have been prepared on the historical cost basis, except for certain financial instruments which are required to be accounted for at fair value, as explained below. Historical cost is determined on the basis of the fair value of consideration transferred for the acquisition of assets.

Going concern basis

These interim condensed consolidated financial statements have been prepared on a going concern basis and there are no indicators that the Group has the intention or is required to liquidate or significantly decrease its operations in the foreseeable future. This assumes that the Group will be able to repay its debts at the date of maturity in the normal course of business.

Accounting policy

In the preparation of this interim condensed consolidated financial information the Group applied the same accounting principles and measurement methods that were used in preparation of annual consolidated financial statements for the year ended 31 December 2012. There were no other changes in the accounting policies for the six months ended 30 June 2013.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires management to make judgments and to use subjective estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of potential assets and liabilities at the date of signing the interim condensed consolidated financial statements and the recorded amounts of revenues and expenses during the reporting period. Despite the fact that these estimates are based on historical knowledge, and other significant factors, events or actions may arise in such a way that the actual results will differ from these estimates.

Main assumptions, judgements and estimates accepted by management of the Group and used in presenting interim condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those used in the consolidated financial statements of the Group for the year ended 31 December 2012.

5. SEGMENT INFORMATION

The information provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance relates to types of goods sold and services rendered, operations with specialized products and double purpose items, civil products and services For the Group's reportable segments none of its operating segments have been combined, with the exception of other products and services that individually do not exceed the quantitative limits.

In particular, the reportable segments of the Group are presented as follows:

- Specialized products and double purpose products;
- Civil purpose products; and
- Services (engineering).

The accounting policies of the reportable segments are the same as the Group's accounting policies. Management of the Group analyses only the revenue from goods and services earned by each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Specialized products and double purpose products	4,308,112	2,049,275
Civil purpose products	8,471,443	8,025,425
Services (engineering)	1,114,452	475,969
	13,894,007	10,550,669

The Group operates in Kazakhstan.

Revenues of the Group from continuing operations on sales to external customers by countries are presented below:

	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Kazakhstan	11,303,511	8,662,707
CIS countries	2,228,307	1,539,336
Other	362,189	348,626
	13,894,007	10,550,669

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction-in-progress	Total
Initial or deemed cost:						
At 1 January 2013	195,275	5,021,009	7,403,578	636,278	1,039,258	14,295,398
Additions	-	8,178	425,738	87,538	1,184,700	1,706,154
Internal movement	-	11,168	40,411	14,466	(66,045)	-
Transfer from inventories	-	-	1,637	1,324	15,175	18,136
Disposals	-	(308)	(33,111)	(4,745)	-	(38,164)
At 30 June 2013 (unaudited)	195,275	5,040,047	7,838,253	734,861	2,173,088	15,981,524
Accumulated depreciation and impairment:						
At 1 January 2013	-	(1,135,074)	(2,776,885)	(237,281)	-	(4,149,240)
Depreciation charge for the period	-	(55,769)	(299,951)	(29,450)	-	(385,170)
Disposals	-	-	23,589	4,800	-	28,389
At 30 June 2013 (unaudited)	-	(1,190,843)	(3,053,247)	(261,931)	-	(4,506,021)
Carrying value:						
At 1 January 2013	195,275	3,885,935	4,626,693	398,997	1,039,258	10,146,158
At 30 June 2013 (unaudited)	195,275	3,849,204	4,785,006	472,930	2,173,088	11,475,503

As at 30 June 2013, construction-in-progress includes capital expenditures for the repair of the production workshop buildings and warehouses of JSC Semei Engineering for KZT 948,401 thousand (31 December 2012: KZT 821,322 thousand) and capital expenditures for the projects "The development of consumable pattern foundry production" and "Nonwoven fabric project" in JSC Tynys for KZT 186,407 thousand (31 December 2012: KZT 209,231 thousand).

For the six months ended 30 June 2013, capitalised borrowing costs amounted to KZT 43,107 thousand (2012: KZT 9,156 thousand). The average capitalisation rate of the borrowing costs was 7.5% (2012: 5%).

As at 30 June 2013 and 31 December 2012, property, plant and equipment with a carrying value of KZT 3,246,783 thousand and KZT 1,708,249 thousand, respectively, were pledged as collateral for certain loans received by the Group.

The cost of temporarily idle property, plant and equipment as at 30 June 2013 and 31 December 2012 amounted to KZT 111,612 thousand and KZT 123,485 thousand, respectively.

The cost of fully depreciated property, plant and equipment as at 30 June 2013 and 31 December 2012 amounted to KZT 469,676 thousand and KZT 621,358 thousand, respectively (Note 16).

7. INVSTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at the reporting date, the subsidiaries of the Group are as follows:

Subsidiary	Nature of activity	Country	Ownership share 30 June 2013 (unaudited)	Ownership share 31 December 2012
JSC 811 Motor-repair Plant KE	Repair of vehicles, armoured machinery, motor assembly and power units, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC Plant named after Kirov	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
JSC Machinery plant named after Kirov	Submarine weapons and hydraulics and automatics for marine ships; pneumatic drills for the extractive industry; spare parts for the railway industry	Kazakhstan	98%	98%
JSC Munaimash	Downhole sucker rod pumps for oil and gas sector, consumer goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%
JSC Instrument making plant Omega	Water purification plants "Taza Su", parts and components for railways; digital phone stations and spare parts, phones, consumer goods	Kazakhstan	99%	99%
JSC Petropavlovsk heavy machinery construction plant	Special equipment for oil vessels working under pressure, and tools for repair and maintenance of railways, parts of rolling stock, production and sale of special products, production and modernization of modern military hardware	Kazakhstan	100%	100%
JSC Semei Engineering	Repair of armoured military vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk machinery construction plant	Creeper tractors, manhole covers for wagons, repair of engineering equipment	Kazakhstan	99%	99%
Kuzet LLP	Security	Kazakhstan	100%	100%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, fire-extinguishing means	Kazakhstan	99%	99%
JSC Uralsk plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
The United Center of Armament Controlling Systems Introduction LLP	Design and development of new types of special products for the defence industry, with the use of automated control systems for weapons	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%

As at the reporting date, associates and joint ventures of the Group are as follows:

Name	Ownership share	Current value at 31 December 2012	Contributed/ (received dividends)	Share in profit/(loss)	Current value at 30 June 2013 (unaudited)
Associates:					
JSC ZIKSTO	42%	700,013	-	(22,672)	677,341
MBM-Kirovets LLP	49%	355,576	-	-	355,576
JSC KAMAZ-Engineering	25%	314,668	-	72,696	387,364
Indra Kazakhstan Engineering LLP	49%	108,611	-	(9,368)	99,243
Kaz-ST Engineering Bastau LLP	49%	15,139	-	(6,918)	8,221
OJSC Ulan	22.07%	17,809	-	-	17,809
Kazakhstan Engineering Distribution LLP	49%	-	-	-	-
		1,511,816	-	33,738	1,545,554
Joint ventures:					
Eurocopter Kazakhstan engineering LLP	50%	2,452,009	(517,008)	(40,339)	1,894,662
Thales Kazakhstan Engineering LLP	50%	201,295	-	(27,284)	174,011
Kazakhstan ASELSAN engineering LLP	50%	101,956	129,084	(56,345)	174,695
		2,755,260	(387,924)	(123,968)	2,243,368
		4,267,076	(387,924)	(90,230)	3,788,922

As at 30 June 2013, the Group's ownership share in associates and joint ventures has not changed.

8. OTHER NON-CURRENT ASSETS

	30 June 2013 (unaudited)	31 December 2012
Advances to suppliers for property, plant and equipment	298,409	921,130
Long-term portion of finance lease receivables	157,638	157,638
Inventories held for capital repair and construction of non-current assets	62,744	63,503
Loans to employees	18,505	18,505
Other non-current receivables	6,304	60,097
Less: allowance for doubtful debts	(157,638)	(157,638)
	385,962	1,063,235

9. INVENTORIES

	30 June 2013 (unaudited)	31 December 2012
Finished goods	2,685,929	2,101,415
Raw materials and supplies	6,338,566	5,077,604
Construction-in-progress	5,986,870	3,499,630
Goods for resale	744,400	420,635
Other	102,664	96,163
Less: allowance for obsolete inventories	(303,650)	(308,201)
	15,554,779	10,887,246

10. TRADE ACCOUNTS RECEIVABLE

	30 June 2013 (unaudited)	31 December 2012
Trade receivables from third parties	2,517,641	1,113,795
Trade receivables from related parties (Note 33)	1,520,811	748,796
Less: allowance for doubtful debts	(44,944)	(45,542)
	3,993,508	1,817,049

11. OTHER TAXES RECOVERABLE

	30 June 2013 (unaudited)	31 December 2012
Value added tax	1,276,399	604,010
Other taxes receivable	72,767	37,495
	1,349,166	641,505

12. OTHER CURRENT ASSETS

	30 June 2013 (unaudited)	31 December 2012
Short-term advances to third parties	8,136,351	3,492,561
Short-term advances to related parties (Note 33)	102,035	20,806
Other short-term receivables from third parties	511,836	463,939
Prepaid expenses	144,974	97,140
Dividends receivable (Note 33)	588,931	71,592
Interest-free loans to joint venture	2,200,000	2,200,000
Receivables from employees	69,279	34,209
Less: fair value adjustment	(75,310)	(31,810)
Less: allowance for doubtful debts	(50,842)	(52,203)
	11,627,254	6,296,234

Increase in other current assets during the six months ended 30 June 2013 was due to advances paid by the Group to its counterparties for the delivery of services. Advances paid by the Group to JSC Aircraft Repair Plant No. 405 as at 30 June 2013 amounted to KZT 2,229,847 thousand.

13. CASH AND CASH EQUIVALENTS

	30 June 2013 (unaudited)	31 December 2012
Cash on bank accounts in KZT	13,673,888	9,106,226
Short-term deposits	1,334,080	924,505
Cash on bank accounts in foreign currency	227,557	66,266
Petty cash in KZT	33,676	15,290
Cash in transit in KZT	700	2,348
	15,269,901	10,114,635

As at 30 June 2013 and 31 December 2012, short-term deposits include deposits in JSC Alliance Bank, JSC Tsesna Bank and JSC BTA Bank. These deposits are denominated in tenge and placed with an original maturity of 1 to 12 months and bear an interest rate of 3.8%-6% per annum, with the right of early withdrawal.

Future receivables from sales contracts serve as collateral for certain loans of the Group (Note 16).

14. SHARE CAPITAL

As at 30 June 2013 and 31 December 2012, authorized, issued and fully paid share capital of the Company consists of 12,101,802 common shares with a par value of KZT 1,000 per each.

As at 30 June 2013 and 31 December 2012, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

During the six months ended 30 June 2013, the Group declared and accrued dividends to its Shareholder in the amount of KZT 678,345 thousand (six months ended 30 June 2012: KZT 48,352 thousand).

15. ADDITIONAL PAID-IN CAPITAL

During the six months ended 30 June 2013, additional paid-in capital increased by KZT 97,717 thousand. This increase represents a fair value adjustment, net of deferred tax effect, in relation to financial aid received from the Shareholder (Note 16).

16. LOANS

In 2013, the Company received a loan from the Shareholder in the amount of KZT 4,700,000 thousand, bearing an interest rate of 4% per annum, with a maturity of 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 an effective interest rate of 7%, and recognized a fair value adjustment of KZT 122,146 thousand, net of tax effect in the amount of KZT 24,429 thousand.

In 2012, the Company received a loan from the Shareholder in the amount of KZT 5,000,000 thousand bearing an interest rate of 3% per annum with a maturity of 30 December 2013. As at 30 June 2013, the principal of KZT 2,500,000 thousand had been repaid.

The loan was provided for the financing of a production center for electronic-optical equipment in Kazakhstan and for the establishment of an internal production, based on subsidiary, for modernisation, engineering-technical support and maintenance of military armoured equipment. Interest on the loan is repaid quarterly.

The Company measured the fair value of the loan using an effective interest rate of 5.5%, and recognized a fair value adjustment of KZT 173,758 thousand, net of tax effect of KZT 34,752 thousand.

As at 30 June 2013 and 31 December 2012, all loans are denominated in tenge.

During 2013, the Group repaid a significant portion of bank loans, including subsidized loans.

As at 30 June 2013 and 31 December 2012, cash that will be generated by future sales contracts (Note 13) and certain property, plant and equipment of the Group have been pledged as collateral against certain loans of the Group (Note 6).

17. DEBT SECURITIES ISSUED

	Maturity date	Interest rate	30 June 2013 (unaudited)	31 December 2012
Bonds issued at price 95.2341% - Tranche 1	6 November 2015	5%	4,534,000	4,534,000
Bonds issued at price 96.4613% - Tranche 2	6 November 2015	5%	3,750,000	-
Bonds issued at price 96.9239% - Tranche 3	6 November 2015	5%	1,000,000	-
Bonds issued at price 97.3266% - Tranche 4	6 November 2015	5%	3,800,000	-
Bonds issued at price 97.8540% - Tranche 5	6 November 2015	5%	1,765,000	-
Including/(less):				
Accrued interest			112,450	34,005
Discount on issued debt securities			(658,877)	(206,164)
Total placed bonds			14,302,573	4,361,841
Less: current portion of debt securities issued			(112,450)	(34,005)
Long-term portion of debt securities issued			14,190,123	4,327,836

18. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2013 (unaudited)	31 December 2012	30 June 2013 (unaudited)	31 December 2012
Less than one year	203,966	410,571	143,449	345,031
From 1 to 5 years	719,690	1,461,767	602,602	1,074,546
Over 5 years	482,198	406,124	324,388	341,297
	1,405,854	2,278,462	1,070,439	1,760,874
Less: future finance costs	(335,415)	(517,588)	-	-
	1,070,439	1,760,874	1,070,439	1,760,874
Recognised in:				
- current liabilities			143,449	345,031
- non-current liabilities			926,990	1,415,843
			1,070,439	1,760,874

In May 2013, a finance lease with an indexed payment was repaid in the amount of KZT 600,000 thousand, in connection with which there is no embedded derivative as at 30 June 2013 (31 December 2012: KZT 204,370 thousand). During the six months of 2013, the Group recognized a fair value adjustment of KZT 66,199 thousand (2012: KZT 16,462 thousand).

19. OTHER NON-CURRENT LIABILITIES

	30 June 2013 (unaudited)	31 December 2012
Long-term advances received from related parties (Note 33)	1,270,211	145,393
Provisions	37,859	36,176
Deferred income – government grants	-	10,673
Other deferred income	6,667	-
Other long-term payables to third parties	125,721	25,974
	1,440,458	218,216

20. TRADE ACCOUNTS PAYABLE

	30 June 2013 (unaudited)	31 December 2012
Accounts payable to suppliers and contractors	2,678,112	1,700,339
Accounts payable to related parties (Note 33)	84,562	2,211,214
	2,762,674	3,911,553

21. OTHER CURRENT LIABILITIES

	30 June 2013 (unaudited)	31 December 2012
Advances received from related parties (Note 33)	8,398,086	863,358
Advances received from third parties	3,891,481	2,212,986
Provisions	946,345	1,442,097
Salary payable	521,625	236,877
Dividends payable to third parties	145,581	179,583
Dividends payable to the Shareholder	711,345	66,000
Deferred income – government grants	-	2,738
Other deferred income	130	6,325
Other payables	294,573	183,526
	14,909,166	5,193,490

The increase in other current liabilities during the six months ended 30 June 2013 was due to the receipt by the Group of advances from its customers for work and services under signed contracts, delivery of which is expected in the fourth quarter of 2013.

As at 30 June 2013, provisions include accrued expenses for warranty services of KZT 258,938 thousand (31 December 2012: KZT 532,549 thousand), provision for unused vacations of KZT 663,926 thousand (31 December 2012: KZT 788,256 thousand) and other accrued expenses of KZT 23,481 thousand (31 December 2012: KZT 121,292 thousand).

22. TAXATION

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Current income tax expense	186,501	99,905
Adjustment of current income tax	(185,019)	-
Deferred tax benefit	75,128	(2,356)
	76,610	97,549

For the six months ended 30 June 2013, there were no significant changes in the basic elements of temporary differences, which primarily include property, plant and equipment and provisions, which give rise to deferred tax liabilities and assets.

23. REVENUE

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Revenue from sale of finished goods	12,779,555	10,074,700
Revenue from rendering services	1,114,452	475,969
	13,894,007	10,550,669

Revenue from the sale of finished products during the period increased compared to the same period of last year due to an increase in production volumes.

24. COST OF SALES

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Raw materials	10,407,840	10,402,537
Payroll and deductions	2,028,228	1,250,208
Subcontractors' services	556,000	541,294
Depreciation and amortisation	292,450	229,843
Utilities	174,293	123,650
Rent expenses	166,879	8,159
Taxes	134,319	42,230
Business trips	77,349	24,304
Repair and maintenance	(39,241)	94,047
Other	251,518	217,784
	14,049,635	12,934,056
Work-in-progress, at the beginning of the year	3,499,630	3,305,142
Work-in-progress, at the end of the year	5,986,870	4,484,702
Change in work-in-progress	(2,487,240)	(1,179,560)
Finished goods, at the beginning of the year	2,101,415	2,142,640
Finished goods, at the end of the year	2,685,929	5,634,075
Change in finished goods	(584,514)	(3,491,435)
Total	10,977,881	8,263,061

The cost of sales in the reporting period increased in comparison to the same period of last year due to an increase in production volumes.

25. GENERAL AND ADMINISTRATIVE EXPENSES

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Payroll, including provisions for vacations and other payments to employees	716,629	693,597
Services of outside organisations	225,523	144,754
Business trips	115,422	96,762
Taxes	120,563	96,419
Depreciation and amortisation	98,122	61,485
Professional services	85,269	59,247
Rent expenses	70,363	58,153
Social aid to employees and social sphere support	55,768	2,246
Repair and maintenance	39,719	27,136
Utilities	37,257	36,291
Bank commissions	34,087	34,206
Transportation expenses	30,141	7,546
Communication	18,479	13,481
Materials	15,942	14,342
Training costs	11,643	8,723
Security	11,492	16,761
Insurance	9,452	7,323
Expenses for events	9,268	10,328
Charity and sponsorship	4,798	3,367
Fines and penalties	3,368	3,309
Licenses, permits, fees	2,336	1,435
Board of Directors administration expenses	1,726	2,974
Recovery of provision for slow moving materials	(440)	-
Other	90,388	58,328
	1,807,315	1,458,213

26. SELLING EXPENSES

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Payroll and related taxes	111,550	68,457
Transportation	99,125	153,415
Taxes	78,783	5,129
Business trips	68,252	33,976
Customs duties	52,719	830
Rent expenses	45,522	1,719
Communication	16,571	3,631
Depreciation and amortization	7,431	6,108
Utilities	4,696	2,563
Materials	1,693	413
Advertising and marketing	-	9,983
Other	44,676	13,487
	531,018	299,711

27. OTHER PROFIT AND LOSSES

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Rental income	48,728	48,295
Income from the sale of inventory	18,023	51,937
Gain from disposal of property, plant and equipment	6,631	145,647
Reversal of impairment losses on property, plant and equipment	-	1,391
Other profit/(loss)	246,200	(11,740)
	319,582	235,530

28. FINANCE INCOME

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Interest on deposits and current accounts	176,643	164,226
Amortization of fair value adjustment on issued loans to joint venture	55,489	-
Interest on finance lease	42,585	24,651
Dividends accrued	-	246,570
Other finance income	3,009	13,893
	277,726	449,340

29. FINANCE COSTS

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Interest on issued bonds	233,356	-
Interest on loans	166,071	240,113
Amortisation of fair value adjustment on loans received from the Shareholder	105,582	62,086
Unwinding of discount on issued bonds	88,145	-
Interest of finance lease	35,215	16,566
	628,369	318,765

30. CONTINGENT LIABILITIES

Taxation and regulatory environment

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

Legal matters

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

Environmental matters

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

Insurance

The Group has not insured its production assets, or provided for third party and employee liability insurance. As 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 interim condensed consolidated financial statements as at 30 June 2013.

Market limitation

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

Capital commitments

As at 30 June 2013 and 31 December 2012, the Group has commitments for the acquisition of property, plant and equipment in the amount of KZT 74,894 thousand and KZT 700,371 thousand, respectively.

31. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMNET POLICIES

The Group's principal financial instruments comprise loans, cash and short-term deposits and accounts receivable and accounts payable. The Group monitors and manages the financial risks relating to operations of the Group through internal risk reports which analyse the degree of exposure to risk and the magnitude of these 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 financial risk management policy and its objectives are consistent with the policy and objectives that were disclosed in consolidated financial statements as at 31 December 2012 and for the year then ended.

32. FAIR VALUE

The fair value of financial assets and financial liabilities is defined as indicated in the annual consolidated financial statements of the Group for 2012.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties on commercial terms, except in situations of forced implementation or implementation of the liquidation. Since most of the Group's financial instruments have 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 are used by the Group to calculate the fair value of financial instruments:

Cash and cash equivalents

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

Trade and other accounts receivable and payable

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

Loans

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

As at 30 June 2013 and 31 December 2012, the fair value of financial assets and financial liabilities did not differ significantly from their carrying value.

Investment property

The fair value of investment property is determined using the comparable sales method. Market sales prices for comparable property located in close proximity are adjusted to reflect the difference of key performance indicators (such as the property size). The key data used in this evaluation principle is the price per square meter.

The following table shows an analysis of financial instruments that are measured subsequent to initial recognition at amortized cost and fair value, as well as investment property carried at initial cost:

Name of balance item	**30 June 2013 (unaudited)**		**31 December 2012**	
	Fair value	**Carrying value**	**Fair value**	**Carrying value**
Financial assets:				
Trade receivables	3,993,508	3,993,508	1,817,049	1,817,049
Restricted cash	-	-	87,062	87,062
Other assets	3,319,545	3,319,545	2,829,293	2,829,293
Cash and cash equivalents	15,269,901	15,269,901	10,114,635	10,114,635
Non-financial assets:				
Investment property	610,723	40,435	610,723	45,196
Total assets	23,193,677	22,623,389	15,458,762	14,893,235
Financial liabilities:				
Loans	(7,544,343)	(7,544,343)	(6,682,757)	(6,682,757)
Issued debt securities	(14,302,573)	(14,302,573)	(4,361,841)	(4,361,841)
Finance lease liabilities	(1,070,439)	(1.070,439)	(1,760,874)	(1,760,874)
Financial liabilities at fair value through profit or loss	-	-	(204,370)	(204,370)
Accounts payable	(2,762,674)	(2,762,674)	(3,911,553)	(3,911,553)
Other liabilities	(1,798,845)	(1,798,845)	(691,960)	(691,960)
Total financial liabilities	(27,478,874)	(27,478,874)	(17,613,355)	(17,613,355)

33. RELATED PARTY TRANSACTIONS

Related parties include associates, subsidiaries and jointly controlled entities of the Company and the Sole Shareholder of the Group, as well as subsidiaries of the Sole Shareholder of the Group, including state owned profit oriented companies, ministries and agencies.

Transactions with related parties undertaken by the Group for the six months ended 30 June 2013, were mainly conducted in the ordinary course of business and on arm's-length terms equivalent to those that prevail in transactions between independent parties.

Accounts receivable from related parties as at 30 June 2013 are as follows:

	30 June 2013 (unaudited)	31 December 2012
JSC NC Kazakhstan Temir Zholy	369,050	599,216
JSC NC KazMunaiGas	1,083,614	19,957
Kamkor Repair Corporation LLP	66,593	126,615
JSC NAC Kazatomprom	1,258	2,351
Other	296	657
	1,520,811	748,796

Dividends receivable from related parties as at 30 June 2013 are presented as follows:

	30 June 2013 (unaudited)	31 December 2012
Eurocopter Kazakhstan Engineering LLP	517,008	-
JSC ZIKSTO	71,694	71,592
Other	229	-
	588,931	71,592

Accounts payable to related parties as at 30 June 2013 are as follows:

	30 June 2013 (unaudited)	31 December 2012
Eurocopter Kazakhstan Engineering LLP	-	2,180,952
JSC NC Kazakhstan Temir Zholy	72,928	23,278
JSC NC KazMunaiGas	2,180	30
JSC Samruk Energy	4,589	4,697
Other	4,865	2,257
	84,562	2,211,214

As at 30 June 2013, advances given to related parties are as follows:

	30 June 2013 (unaudited)	31 December 2012
JSC Samruk-Energy	2,882	-
JSC NC Kazakhstan Temir Zholy	85,853	-
JSC NC KazMunaiGas	7,756	12,568
Other	5,544	8,238
	102,035	20,806

As at 30 June 2013, advances received from related parties are as follows:

	30 June 2013 (unaudited)	31 December 2012
Ministries and agencies	9,379,165	145,393
JSC NC KazMunaiGas	188,780	855,605
JSC NC Kazakhstan Temir Zholy	100,352	7,602
Other	-	151
	9,668,297	1,008,751

Revenue from sales to related parties for the six months ended 30 June 2013 is as follows:

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
JSC NC KazMunaiGas	3,116,562	2,310,151
JSC NC Kazakhstan Temir Zholy	2,356,457	2,236,875
Ministries and agencies	1,338,543	542,062
JSC NAC Kazatomprom	5,007	121,466
Other	2,434	266,729
	6,819,003	5,477,283

Expenses from services rendered and goods acquired from related parties for the six months ended 30 June 2013 are as follows:

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
JSC NC Kazakhstan Temir Zholy	167,360	545,776
JSC Samruk Energy	58,750	45,222
Ministries and agencies	32,711	32,711
JSC NC KazMunaiGas	77,402	29,988
JSC Kazakhtelecom	11,591	12,434
Other	18,214	4,944
	366,028	671,075

For the six months ended 30 June 2013 and 2012, compensation to key management personnel amounted to KZT 142,930 thousand and KZT 171,425 thousand, respectively.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

Consolidated financial statements
for the year ended 31 December 2012

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management of JSC National Company Kazakhstan Engineering (hereinafter – "the Company") and its subsidiaries (hereinafter – the "Group") is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2012 were approved and authorized for issue by management of JSC National Company Kazakhstan Engineering on 15 March 2013.

Signed on behalf of management of the Group

Aliya Zhetehova **Managing Director**	**Bolat Mukashev** **Director-chief accountant of corporate finance and accounting department**

15 March 2013
Astana, Kazakhstan

Deloitte.

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Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company National Company Kazakhstan Engineering and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate No.0000314
dated 23 December 1996,
Republic of Kazakhstan

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

15 March 2013
Almaty, Kazakhstan

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSTITION
AS AT 31 DECEMBER 2012
(in thousands of tenge)

	Notes	31 December 2012	31 December 2011
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	10,146,158	7,298,784
Intangible assets	7	212,306	164,779
Investments in associates and joint ventures	8	4,267,076	3,516,279
Other non-current assets	9	1,063,235	342,252
Deferred tax assets	33	213,691	132,567
Investment property		45,196	54,753
Long-term investments		4,417	4,417
Total non-current assets		15,952,079	11,513,831
CURRENT ASSETS:			
Inventory	10	10,887,246	8,197,964
Trade accounts receivable	11	1,817,049	1,159,342
Income tax prepaid		146,397	79,156
Other taxes recoverable	12	641,505	557,558
Restricted cash	13	87,062	82,391
Other current assets	14	6,296,234	2,268,510
Cash and cash equivalents	15	10,114,635	3,485,674
		29,990,128	15,830,595
Non-current assets classified as held-for-sale		1,832	64,004
Total current assets		29,991,960	15,894,599
TOTAL ASSETS		45,944,039	27,408,430
КАПИТАЛ И ОБЯЗАТЕЛЬСТВА			
EQUITY:			
Charter capital	16	12,101,802	12,101,802
Additional paid-in-capital	17	743,301	522,835
Retained earnings		7,696,411	3,874,545
Equity attributable to Parent of the Company		20,541,514	16,499,182
Non-controlling interests	18	561,383	573,174
Total equity		21,102,897	17,072,356
NON-CURRENT LIABILITIES:			
Loans	19	462,327	539,164
Debt securities issued	20	4,327,836	-
Finance lease obligations	21	1,415,843	479,222
Other non-current liabilities	22	218,216	866,309
Deferred tax liabilities	33	639,649	642,935
Debt component of preferred shares		205,072	197,846
Total non-current liabilities		7,268,943	2,725,476

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSTITION AS AT 31 DECEMBER 2012 (CONTINUED)
(in thousands of tenge)

	Notes	31 December 2012	31 December 2011
CURRENT LIABILITIES:			
Loans and current portion of long-term loans	19	6,220,430	2,440,297
Current portion of debt securities issued	20	34,005	-
Current portion of finance lease obligations	21	345,031	152,792
Financial liability at fair value through profit or loss	21	204,370	183,230
Trade accounts payable	23	3,911,553	719,931
Income tax payable		236,113	156,278
Other taxes payable	24	1,427,207	1,024,415
Other current liabilities	25	5,193,490	2,933,655
Total current liabilities		17,572,199	7,610,598
TOTAL EQUITY AND LIABILITIES		45,944,039	27,408,430

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director

Bolat Mukashev
Director-chief accountant of corporate finance and accounting department

15 March 2013
Astana, Kazakhstan

The notes on pages 10-50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of tenge)

	Notes	2012	2011
REVENUE	26	52,153,614	33,623,194
COST OF SALES	27	(43,392,917)	(28,222,723)
GROSS PROFIT		8,760,697	5,400,471
General and administrative expenses	28	(3,807,427)	(2,855,658)
Selling expenses	29	(841,849)	(640,484)
Other profit and losses	30	618,165	502,530
Foreign exchange (loss)/income, net		(21,272)	50,374
Share of profit in associates and joint ventures	8	997,227	727,527
Loss on financial liabilities at fair value through profit and loss	21	(21,140)	(28,417)
Finance income	31	314,818	79,531
Finance costs	32	(790,886)	(389,858)
PROFIT BEFORE INCOME TAX		5,208,333	2,846,016
INCOME TAX EXPENSE	33	(670,367)	(581,929)
Profit for the year from continuing operations		4,537,966	2,264,087
Profit for the year from discontinued operations	34	20,580	-
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,558,546	2,264,087
Net profit and total comprehensive income attributable to:			
Parent of the Company		4,522,297	2,149,510
Non-controlling interests	18	36,249	114,577
		4,558,546	2,264,087

Signed on behalf of management of the Group

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

Aliya Zhetenova
Managing Director

Bolat Mukushev
Director-chief accountant of corporate finance and accounting department

15 March 2013
Astana, Kazakhstan

The notes on pages 10-50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of tenge)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to Parent of the Company	Non-controlling interests	Total
At 1 January 2011		12,101,802	522,835	1,856,543	14,481,180	458,597	14,939,777
Net profit and total comprehensive income for the year		-	-	2,149,510	2,149,510	114,577	2,264,087
Measurement of debt component of preferred shares		-	-	(15,508)	(15,508)	-	(15,508)
Dividends	16	-	-	(116,000)	(116,000)	-	(116,000)
At 31 December 2011		12,101,802	522,835	3,874,545	16,499,182	573,174	17,072,356
Net profit and total comprehensive income for the year		-	-	4,522,297	4,522,297	36,249	4,558,546
Fair value adjustment on loan received from Shareholder, less deferred tax effect of 55,117 thousands tenge	19	-	220,466	-	220,466	-	220,466
Measurement of debt component of preferred shares		-	-	(7,226)	(7,226)	-	(7,226)
Dividends	16, 18	-	-	(693,205)	(693,205)	(48,040)	(741,245)
At 31 December 2012		12,101,802	743,301	7,696,411	20,541,514	561,383	21,102,897

Signed on behalf of management of the Group:

Aliya Zhetenova
Director-chief accountant of corporate finance and accounting department

Bolat Mukushev

15 March 2013
Astana, Kazakhstan

The notes on pages 10-50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in thousands of tenge)

	Notes	2012	2011
OPERATING ACTIVITY:			
Profit before income tax		5,228,913	2,846,016
Adjustments for:			
Amortisation and depreciation	27, 28, 29, 30	621,234	644,860
Impairment of property, plant and equipment	30	-	24,925
Allowance for doubtful accounts	28	32,936	(38,304)
Allowance for obsolete inventories	28	(56,046)	56,078
Gain from property, plant and equipment and intangible assets disposal	30	(532,944)	(393,664)
Foreign exchange loss/(gain)		21,272	(50,374)
(Gain)/loss from investments disposal		(40,371)	1,074
Share of profit in associates and joint venture	8	(997,227)	(727,527)
Loss on financial liabilities at fair value through profit and loss	21	21,140	28,417
Warranty provision		371,036	113,830
Unused vacation provision		524,442	145,423
(Reversal)/accrual of expenses for delivering services		(392,792)	392,792
Other provisions		145,840	(5,109)
Finance income		(95,377)	-
Finance costs	32	790,886	389,858
Cash flows from operating activity before changes in working capital		5,642,942	3,428,295
Changes in working capital:			
Change in inventory		(2,704,973)	(2,397,235)
Change in trade accounts receivable		(664,257)	31,889
Change in value added tax and other taxes recoverable		64,934	(297,376)
Change in other assets		(2,034,694)	(1,407,251)
Change in trade accounts payable		3,184,505	(632,907)
Change in taxes payable		353,571	583,074
Change in other liabilities		813,679	(1,089,175)
Cash generated by/(used in) operating activity		4,655,707	(1,780,686)
Interests paid		(445,596)	(357,820)
Income tax paid		(736,242)	(537,364)
Net cash generated by/(used in) operating activity		3,473,869	(2,675,870)
INVESTING ACTIVITY:			
Acquisition of property, plant and equipment		(2,002,753)	(717,633)
Acquisition of intangible assets		(107,141)	(22,537)
Advances paid for non-current assets	9	(921,130)	(240,249)
Acquisition of investments in associates		-	(1,319,595)
Short-term loans given		(2,200,000)	(307,000)
Repayment for short-term loans given		54,474	307,000
Dividends received		248,825	74,246
Proceeds from disposal of property, plant and equipment		686,898	692,098
Net cash inflow on disposal of subsidiary	34	8,436	-
Acquisition of short-term investments		(4,671)	(547)
Net cash used in investing activity		(4,237,062)	(1,534,217)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)
(in thousands of tenge)

	Notes	2012	2011г.
FINANCING ACTIVITY:			
Proceeds from debts securities issued	20	4,317,912	-
Loans received		9,913,114	7,246,081
Loans repaid		(5,990,938)	(5,919,378)
Finance lease repaid		(71,999)	(20,373)
Dividends paid		(775,935)	(77,815)
Net cash generated by financing activity		7,392,154	1,228,515
CHANGE IN CASH AND CASH EQUIVALENTS, net		6,628,961	(2,981,572)
CASH AND CASH EQUIVALENTS, at the beginning of the year	15	3,485,674	6,467,246
CASH AND CASH EQUIVALENTS, at the end of the year	15	10,114,635	3,485,674

Significant non-cash transactions:

For the years ended 31 December 2012 and 2011:

	2012	2011
Additions of property, plant and equipment and component parts under finance lease (Note 21)	1,240,676	-
Transfer from inventories to property, plant and equipment (Note 6)	72,713	-
Fair value adjustment on loan given to associate (Note 8)	72,991	13,045
Transfer from inventories to other non-current assets	63,503	-
Offset of advances paid against finance lease (Note 9)	223,582	-
Fair value adjustment on loan received from Shareholder	220,466	-
Finance costs capitalized to the cost of property, plant and equipment	72,405	-
Accrued depreciation in the cost of finished goods and work-in-progress	38,656	1,685

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director

Bolat Mukushev
Director-chief accountant of corporate finance and accounting department

15 March 2013
Astana, Kazakhstan

The notes on pages 10-50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

1. GENERAL INFORMATION

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

As at 31 December 2012 and 2011, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna. On 15 June 2010, 100% shares were transferred for asset management to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company and its subsidiaries are:

- participation in state policy on development, production, realisation and liquidation of goods and equipment of defence, civil and twofold purposes;
- participation in development and realisation of current and long-term inter-industry development and production programs of defence and twofold purpose products 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.

These consolidated financial statements include financial statements of the Company and its following subsidiaries (together referred as the "Group"):

Subsidiary	Nature of operation	Country	Ownership share 31 December 2012	Ownership share 31 December 2011
JSC 811 Motor-repair Plant KE	Repair of vehicles, armored machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC Plant named after Kirov	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
Kazakhstan engineering Distribution LLP	Distribution of Group's produced goods, investments attraction, participation in state programs and state purchases for equipment supply	Kazakhstan	49%	100%
JSC Machinery plant named after Kirov	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaimash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%
JSC Instrument making plant Omega	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk heavy machinery construction plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of special products, production and modernization of modern military hardware	Kazakhstan	100%	100%
JSC Semei engineering	Repair of armored military vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk machinery construction plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
Kuzet LLP	Security	Kazakhstan	100%	100%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Uralsk plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
The united center of armament controlling systems introduction LLP	Design and development of new types of special products for the defense industry, with the use of automated control systems for weapons	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	-

In 2012, the Group sold its controlling interest (51%) in Kazakhstan engineering Distribution LLP (Notes 8 и 34).

As at 31 December 2012 and 2011, the Group also had investments in associates and joint ventures, described in Note 8.

Legal address: 10, Kunayev str, Astana, Republic of Kazakhstan.

Number of employees of the Group as at 31 December 2012 was 6,458 people (31 December 2011: 4,730 people).

The consolidated financial statements for the year ended 31 December 2011 was approved by management on 15 March 2013.

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. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations adopted during the current year

The Group adopted the following new and revised Standards and Interpretations during the current year:

- IAS 12 Income Taxes – Change in limited scope (recovery of underlying assets) (effective for reporting periods beginning on or after 1 January 2012);
- Amendments to IFRS 7 Financial Instruments: Disclosures, enhancing disclosures about transfer of financial assets (effective for reporting periods beginning on or after 1 July 2011).

In addition, the Group 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 consolidated financial statements, issues of recognition and measurement. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only and had no material effect on amounts reported.

The adoption of the above standards had no impact on the results of operations or financial position of the Group and on notes to the consolidated financial statements.

Standards and Interpretations issues, but not effective

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were issued but not yet effective:

- IAS 1 Presentation of Financial Statements – Amendments related to presentation of items of other comprehensive income (effective for reporting periods beginning on or after 1 July 2012);
- IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosure of information on first-time adoption of IFRS 9 (effective for reporting periods beginning on or after 1 January 2015);
- IFRS 9 Financial Instruments (effective for reporting periods beginning on or after 1 January 2015);
- IFRS 10 Consolidated Financial Statements (effective for reporting periods beginning on or after 1 January 2013);
- IFRS 11 Joint Arrangements (effective for reporting periods beginning on or after 1 January 2013);
- IFRS 12 Disclosure of Interests in Other Entities (effective for reporting periods beginning on or after 1 January 2013);
- IFRS 13 Fair Value Measurement (effective for reporting periods beginning on or after 1 January 2013);

- IAS 19 Employee Benefits (June 2011) – Amendments resulting from the post-employment benefits and termination benefits projects (effective for reporting periods beginning on or after 1 January 2013);
- IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (effective for reporting periods beginning on or after 1 January 2013);
- IAS 28 Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (effective for reporting periods beginning on or after 1 January 2013);
- IAS 32 Financial Instruments: Presentation – Amendments relating to the offsetting of financial assets and liabilities (effective for reporting periods beginning on or after 1 January 2014).

In May 2011, a package of five standards was issued (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2012) and IAS 28 (2012)), in which the consolidations, joint arrangements, investments in associates and disclosure of information issues were considered. These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipates that all of the above five standards will be adopted in the Group's consolidated financial statements in the period beginning of their effective dates and that the adoption of these Standards and Interpretations will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments.

Functional and presentation currency

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

Foreign currency transactions

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises (including special purpose entities) controlled by the Company (its subsidiaries). The company is controlled by the Company if the Company's management can determine the financial and operating policies of an entity so as to obtain benefits for the Company from its activities.

Revenues and expenses of subsidiaries acquired or sold during the year are included in the consolidated statement of comprehensive income, beginning from the date of their actual purchase and till the effective date of disposal, respectively. Total comprehensive income of subsidiaries relates to the shareholders of the Company and Non-controlling interests (NCI), even if it leads to a negative balance of NCI.

If necessary, the financial statements of subsidiaries are adjusted to align their accounting policies with the principles of the Group's accounting policies.

All transactions among Group's companies, related balances and unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any NCI.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a contractual arrangement whereby one or more parties undertake an economic activity that is subject to joint control. Investments in associates/joint ventures are recognized in the consolidated statement of financial position at cost, plus the change in the Group's share of net assets of the associate/joint venture after the acquisition, less impairment. When the Group's share of losses in these entities exceeds the Group's ownership in an entity (which includes any long-term share ownership, which, in fact, form part of the Group's net investment in the organization), the Group ceases to recognize its share of further losses. The Group's share in the profits and losses of associates/joint ventures is recognized in the consolidated statement of comprehensive income of the Group.

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

Investment property

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

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

Impairment of tangible and intangible assets

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

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

Inventories

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

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

Recognition of financial instruments

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

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

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

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

Financial assets

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

Cash and cash equivalents

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

Trade accounts receivable

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

Loans and other receivables

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

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

Other financial assets

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

Impairment of financial assets

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

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

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

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

Financial liabilities and equity instruments

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

An equity instrument

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

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

Preferred shares

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

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

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

Construction contracts

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

Lease

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

The Group as a lessor

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

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

The Group as a lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance 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 Group's general policy on borrowing costs (see note below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Borrowing costs

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

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

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

Pension fund liabilities

The Group makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 130,792 tenge per month (2011: not more than 119,992 tenge). Payments to pension funds deducted from employees' salaries and are included in the total cost of salaries and deductions in the consolidated statement of comprehensive income.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Provisions

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

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Recognition and estimation of debt component of preferred shares

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

Useful lives of property, plant and equipment

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

Warranty obligations

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

Impairment of assets

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

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

Valuation of inventories

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

Taxation

Various Kazakhstani legislation acts and regulations are not always clearly written. There may be cases of different interpretations between local, regional and national tax authorities. Thus, in the case of accrual of additional taxes by the tax authorities, the existing fines and penalties are set in a large size, the size of the penalty is 50% of the amount of additional taxation, and the penalty is 22.5% of the amount of tax paid late. As a result, fines and penalties may exceed the amount of additionally accrued taxes.

Due to the uncertainties stated above, the potential amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2012. The differences between estimates and actually paid amounts, if any, may have a significant effect on the Group's future profits.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value using market data, such as forward currency exchange rates and the risk-free discount rate.

5. SEGMENTS INFORMATION

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

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

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

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

	2012	**2011**
Specialised products and twofold purposes products	28,129,393	16,923,263
Civil purposes products	14,243,378	12,044,868
Services (engineering)	9,780,843	4,655,063
	52,153,614	33,623,194

The Group carries out its activity in Kazakhstan.

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

	2012	**2011**
Kazakhstan	48,627,926	31,139,285
CIS countries	2,818,855	1,903,923
Other	706,833	579,986
	52,153,614	33,623,194

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in process	Total
Initial or deemed cost:						
At 1 January 2011	194,232	4,864,644	5,122,819	408,060	167,548	10,757,303
Additions	5,500	125,930	487,441	84,505	14,257	717,633
Disposals	(27,885)	(232,434)	(90,962)	(9,204)	(7,602)	(368,087)
Transfer to assets classified as held-for-sale	-	(62,044)	(5,006)	-	-	(67,050)
Transfer to investment property	-	(119,463)	-	-	-	(119,463)
At 31 December 2011	171,847	4,576,633	5,514,292	483,361	174,203	10,920,336
Additions	39,957	196,601	735,462	177,015	1,163,512	2,312,547
Additions under finance lease	-	-	1,214,166	-	-	1,214,166
Loss of control over subsidiary	-	-	(15,846)	-	-	(15,846)
Transfer from inventories	-	18,507	48,001	-	6,205	72,713
Internal movement	-	305,037	(375)	-	(304,662)	-
Disposals	(16,529)	(75,769)	(92,122)	(24,098)	-	(208,518)
As at 31 December 2012	195,275	5,021,009	7,403,578	636,278	1,039,258	14,295,398
Accumulated depreciation and impairment:						
At 1 January 2011	-	(1,002,666)	(1,971,457)	(137,377)	-	(3,111,500)
Accrued depreciation for the year	-	(122,339)	(451,544)	(45,978)	-	(619,861)
Accrued impairment for the year	-	-	(24,925)	-	-	(24,925)
Loss of control over subsidiary	-	-	8,543	-	-	8,543
Disposals	-	25,150	30,105	5,855	-	61,110
Transfer to assets classified as held-for-sale	-	8,110	1,022	-	-	9,132
Transfer to investment property	-	55,949	-	-	-	55,949
At 31 December 2011	-	(1,035,796)	(2,408,256)	(177,500)	-	(3,621,552)
Accrued depreciation for the year	-	(119,831)	(440,325)	(66,894)	-	(627,050)
Disposals	-	20,553	71,696	7,113	-	99,362
At 31 December 2012	-	(1,135,074)	(2,776,885)	(237,281)	-	(4,149,240)
Carrying value:						
At 31 December 2012	195,275	3,885,935	4,626,693	398,997	1,039,258	10,146,158
At 31 December 2011	171,847	3,540,837	3,106,036	305,861	174,203	7,298,784

As at 31 December 2012, construction in process includes capital expenditures for repair of production workshop buildings and warehouses of subsidiary JSC Semei engineering of 821,322 thousand tenge and expenditures for the project "The development of consumable pattern foundry production" in subsidiary JSC Tynys of 209,231 thousand tenge (31 December 2011: capital expenditures for repair of production buildings of JSC Uralsk plant Zenith of 165,578 thousand tenge).

As at 31 December 2012 and 2011, property, plant and equipment with carrying value of 1,708,249 thousand tenge and 2,449,376 thousand tenge, respectively, were pledged as collateral for certain loans received by the Group (Note 19).

The cost of fully depreciated property, plant and equipment as at 31 December 2012 and 2011 amounted to 621,358 thousand tenge and 291,135 thousand tenge, respectively.

As at 31 December 2012, carrying value of property, plant and equipment received under finance lease amounted to 1,660,059 thousand tenge (31 December 2011: 487,418 thousand tenge). This equipment serves as collateral for the obligations under finance leases.

7. INTANGIBLE ASSETS

	Software	Other	Total
Initial or deemed cost:			
At 1 January 2011	140,741	27,285	168,026
Additions	5,447	76,182	81,629
Disposals	(21)	(35)	(56)
At 31 December 2011	146,167	103,432	249,599
Additions	103,443	3,698	107,141
Disposals	(182)	(36,245)	(36,427)
Loss of control over subsidiary	(76)	-	(76)
At 31 December 2012	249,352	70,885	320,237
Accumulated amortization and impairment:			
At 1 January 2011	(49,827)	(17,080)	(66,907)
Accrued amortization for the year	(12,230)	(5,693)	(17,923)
Disposals	-	10	10
At 31 December 2011	(62,057)	(22,763)	(84,820)
Accrued amortization for the year	(11,992)	(11,291)	(23,283)
Disposals	172	-	172
At 31 December 2012	(73,877)	(34,054)	(107,931)
Carrying value:			
At 31 December 2012	175,475	36,831	212,306
At 31 December 2011	84,110	80,669	164,779

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Carrying value as at 31 December 2011	Acquired/ (received dividends)	Share in profit/(loss)	Carrying value as at 31 December 2012
Associates:				
JSC ZIKSTO	844,685	(71,664)	(73,008)	700,013
MBM-Kirovets LLP	354,560	(2,000)	3,016	355,576
JSC KAMAZ-Engineering	304,142	(14,164)	24,690	314,668
Indra Kazakhstan Engineering LLP	119,474	(182)	(10,681)	108,611
Kaz-ST Engineering Bastau LLP	15,547	-	(408)	15,139
OJSC Ulan	17,809	-	-	17,809
Kazakhstan engineering Distribution LLP	-	995	(995)	-
Joint ventures:				
Eurocopter Kazakhstan engineering LLP	1,615,026	(232,406)	1,069,389	2,452,009
Thales Kazakhstan Engineering LLP	220,406	-	(19,111)	201,295
Kazakhstan ASELSAN engineering LLP	24,630	72,991	4,335	101,956
	3,516,279	(246,430)	997,227	4,267,076

Name	Carrying value as at 1 January 2011	Acquired/ (received dividends)	Share in profit/(loss)	Carrying value as at 31 December 2011
Associates:				
JSC ZIKSTO	725,399	(59,757)	179,043	844,685
MBM-Kirovets LLP	341,764	1,221	11,575	354,560
JSC KAMAZ-Engineering	228,427	(5,575)	81,290	304,142
Indra Kazakhstan Engineering LLP	-	124,460	(4,986)	119,474
Kaz-ST Engineering Bastau LLP	17,152	-	(1,605)	15,547
OJSC Ulan	7,624	-	10,185	17,809
Joint ventures				
Eurocopter Kazakhstan engineering LLP	-	1,150,214	464,812	1,615,026
Thales Kazakhstan Engineering LLP	212,387	-	8,019	220,406
Kazakhstan ASELSAN engineering LLP	-	45,436	(20,806)	24,630
	1,532,753	1,255,999	727,527	3,516,279

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

Name	Principal activity	31 December 2012	31 December 2011
		Ownership share, %	Ownership share, %
Associates			
JSC ZIKSTO	Repair of freight rail cars, repair of wheel sets with replacement of elements	42%	42%
Kaz-ST Engineering Bastau LLP	Investment holding activity and provision of defense, engineering services	49%	49%
KAMAZ-Semei LLP	Commercial activity	49%	49%
JSC KAMAZ-Engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	25%	25%
Indra Kazakhstan Engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	49%	49%
Kazakhstan engineering Distribution LLP	Distribution of Group's produced goods, investments attraction, participation in state programs and state purchases for equipment supply	49%	100%
Joint ventures			
Thales Kazakhstan Engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment	50%	50%
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	50%	50%
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	50%	50%

On 11 October 2012, the Company sold its 51% ownership interest in subsidiary Kazakhstan engineering Distribution LLP. As a result, it started accounting for the residual share as investment in associate (Note 34).

During 2012, the Company recognised fair value adjustment on loan given to Kazakhstan ASELSAN engineering LLP in the cost of investments of 72,991 thousand tenge (2011: Kazakhstan ASELSAN engineering LLP – 13,045 thousand tenge and Eurocopter Kazakhstan engineering LLP - 267 thousand tenge) (Note 14).

9. OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011
Advances paid for property, plant and equipment	921,130	240,249
Finance lease receivables	157,638	157,638
Inventories for capital repair and construction of non-current assets	63,503	69,545
Loans given to employees	18,505	22,979
Other long-term receivables	60,097	9,479
Less: allowance for doubtful debts	(157,638)	(157,638)
	1,063,235	342,252

As at 31 December 2011, advances paid to property, plant and equipment included advance paid to JSC DBK-Leasing of 223,852 thousand tenge in accordance with finance lease agreement for equipment (Note 37). During 2012, equipment was supplied and the Group offset the advances against finance lease obligations.

10. INVENTORY

	31 December 2012	31 December 2011
Work-in-progress	3,499,630	3,305,142
Raw materials	5,077,604	2,266,930
Finished goods	2,101,415	2,142,640
Goods for sale	420,635	490,156
Other	96,163	357,343
Less: allowance for obsolete inventories	(308,201)	(364,247)
	10,887,246	8,197,964

Movement in allowance for obsolete inventories for the years ended 31 December 2012 and 2011 is presented as follows:

	2012	2011
Allowance for obsolete inventories at the beginning of the year	(364,247)	(321,542)
Recovered/(accrued) during the year	56,046	(56,078)
Written-off against previously created allowance	-	13,373
Allowance for obsolete inventories at the end of the year	(308,201)	(364,247)

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2012	31 December 2011
Trade receivables from third parties	1,113,795	579,638
Trade receivables from related parties (Note 37)	748,796	623,836
Less: allowance for doubtful debts	(45,542)	(44,132)
	1,817,049	1,159,342

Movement in allowance for doubtful debts for the years ended 31 December 2012 and 2011 is presented as follows:

	2012	2011
Allowance for doubtful debts at the beginning of the year	(44,132)	(36,318)
Accrued during the year	(1,616)	(8,171)
Written-off against previously created allowance	206	357
Allowance for doubtful debts at the end of the year	(45,542)	(44,132)

As at 31 December 2012 and 2011, trade accounts receivable net of allowace for doubtful debts are denominated in the following currencies:

	31 December 2012	31 December 2011
Tenge	1,806,440	1,158,227
US dollars	-	827
Russian roubles	10,609	288
	1,817,049	1,159,342

12. OTHER TAXES RECOVERABLE

	31 December 2012	31 December 2011
Value added tax	604,010	545,457
Other taxes recoverable	37,495	12,101
	641,505	557,558

13. RESTRICTED CASH

	31 December 2012	31 December 2011
Bank guarantee	87,062	82,391
	87,062	82,391

As at 31 December 2012 and 2011, restricted cash represents cash on special bank account in JSC BTA Bank as a guarantee for execution of a contract for modernization of assembling inventory. Contract term is 25 May 2013.

14. OTHER CURRENT ASSETS

	31 December 2012	31 December 2011
Short-term advance given to third parties	3,492,561	1,699,598
Short-term advance given to related parties (Note 37)	20,806	12,984
Prepaid expenses	97,140	34,458
Receivable from employees	34,209	17,893
Dividends receivable (Note 37)	71,592	-
Interest-free loans (Note 37)	2,200,000	50,000
Guarantees for contracts execution	-	284,562
Other receivable from third parties	463,939	195,965
Short-term investments	-	1,800
Less: fair value adjusment (Note 37)	(31,810)	(5,418)
Less: allowance for doubtful debts	(52,203)	(23,332)
	6,296,234	2,268,510

In September 2011, the Group provided interest-free loans to joint venture, Kazakhstan ASELSAN engineering LLP, of 250,000 thousand tenge and 50,000 thousand tenge with maturity on 30 November 2011 and 31 December 2012, respectively. The Group measured these loans at amortised cost using market interest rate of 11.5% at the date of loans provision and recognised fair value adjustment in the cost of investments in joint venture of 13,045 thousand tenge. Also, during 2011, the Group recognised amortization of fair value adjustment in finance income of 7,627 thousand tenge (Note 31). The loan of 250,000 thousand tenge was repaid in December 2011, and the loan of 50,000 thousand tenge was repaid in December 2012. During 2012, the Group recognised amortization of fair value adjustment in finance income of 5,418 thousand tenge (Note 31).

Also, in March 2011, the Group provided interest-free loans to joint venture, Eurocopter Kazakhstan engineering LLP, of 7,000 thousand tenge with maturity on 1 July 2011. The Group measured these loans at amortised cost using market interest rate of 13.1% at the date of loans provision and recognised fair value adjustment in the cost of investments in joint venture of 267 thousand tenge. In 2011, the loan was fully repaid, and the Group recognised amortization of fair value adjustment in finance income of 267 thousand tenge (Note 31).

In 2012, the Group provided interest-free loans to joint venture, Kazakhstan ASELSAN engineering LLP, for the total amount of 2,200,000 thousand tenge with maturity on 31 March 2013. The Group measured these loans at amortised cost using market interest rate of 7% at the date of loans provision and recognised fair value adjustment in the cost of investments in joint venture of 72,991 thousand tenge. Also, during 2012, the Group recognised amortization of fair value adjustment in finance income of 41,181 thousand tenge (Note 31).

Movement in allowance for doubtful debts for the years ended 31 December 2012 and 2011 is presented as follows:

	2012	**2011**
Allowance for doubtful debts at the beginning of the year	(23,332)	(69,807)
(Accrued)/recovered during the year	(31,320)	46,475
Written-off against previously created allowance	2,449	-
Allowance for doubtful debts at the end of the year	(52,203)	(23,332)

As at 31 December 2012 and 2011, other current assets are denominated in tenge.

15. CASH AND CASH EQUIVALENTS

	31 December 2012	**31 December 2011**
Cash on bank accounts in tenge	9,106,226	3,350,186
Short-term deposits	924,505	81,005
Petty cash in tenge	15,290	31,593
Cash on bank accounts in foreign currencies	66,266	15,797
Cash on special bank accounts in tenge	-	5,089
Cash in transit in tenge	2,348	2,004
	10,114,635	3,485,674

The Group placed cash on short-term deposits with initial maturity from 1 to 3 months and annual interest rates from 3.8% to 6% (2011: from 4% to 5%).

Cash and cash equivalents are denominated in the following currencies:

	31 December 2012	**31 December 2011**
Tenge	10,043,419	3,469,877
US dollars	419	-
Euro	-	445
Russian roubles	64,043	15,352
Other currencies	6,754	-
	10,114,635	3,485,674

16. CHARTER CAPITAL

As at 31 December 2012 and 2011, authorized, issued and fully paid charter capital of the Company consists of common shares of 12,101,802 shares with par value of 1,000 tenge, each.

As at 31 December 2012 and 2011, 100% of Company's shares belong to JSC SWF Samruk-Kazyna.

In 2012, the Company declared dividends to the controlling shareholder for 2010 and 2011of 48,352 thousand tenge and 644,853 thousand tenge, respectively.

In 2011, the Company declared dividends to shareholder of the Company for 2007-2008 being paid: 50,000 thousand tenge in 2012 and 66,000 thousand tenge in 2013.

17. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2012 and 2011, additional paid-in-capital amounted to 743,301 thousand tenge and 522,835 thousand tenge, respectively. Additional paid-in-capital includes the following:

- a difference between the value of shares paid by PA Committee on State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan as a contribution to the charter capital and the value of registered charter capital of the Company of 428,612 thousand tenge (2011: 428,612 thousand tenge);
- fair value adjustment, less deferred tax effect, on the below market rate loan from Shareholder of 314,689 thousand tenge (2011: 94,223 thousand tenge) (Note 19).

18. NON-CONTROLLING INTERESTS

	2012	2011
At 1 January	573,174	458,597
Net profit and total comprehensive income for the year, attributable to non-controlling interests	36,249	114,577
Dividends	(48,040)	-
At 31 December	561,383	573,174

During 2012, the subsidiary, JSC Munaimash, declared dividends for 2011. The amount of dividends to non-controlling interests amounted to 48,040 thousand tenge (2011: nil).

19. LOANS

	Maturity	Interest rate	31 December 2012	31 December 2011
Secured loans				
JSC Halyk Bank of Kazakhstan	November 2016	8%-16%	918,527	876,922
JSC BTA Bank	January 2015	8%-12.54%	853,913	1,123,329
JSC Temir Bank	April 2013	14%	-	728,807
JSC Eurasian Bank	-	13%-14.25%	-	102,576
			1,772,440	2,831,634
Unsecured loans				
JSC SWF Samruk-Kazyna			5,017,084	150,045
Less: fair value adjustment			(106,767)	(22,218)
JSC BTA Bank	June 2012	13%	-	20,000
			4,910,317	147,827
			6,682,757	2,979,461
Short-term loans and current portion of long-term loans			6,220,430	2,440,297
Long-term loans			462,327	539,164
			6,682,757	2,979,461

JSC Halyk Bank of Kazakhstan

On 24 February 2010, the Group entered into a credit line agreement No.3 in JSC Halyk Bank of Kazakhstan to replenish working capital of 300,000 thousand tenge with the interest rates of 14% to 16% depending on maturity, with the period of availability of loan funds until 24 February 2013. According to addendum agreement dated 23 February 2011, the total amount of the credit line was increased to 600,000 thousand tenge, then according to addendum agreement dated 22 April 2011, the total amount of the credit line was increased to 900,000 thousand tenge. Principal amount and interests are paid monthly.

Also, on 13 October 2010, the Group entered into a credit line agreement No.22 in JSC Halyk Bank of Kazakhstan for investment in long-term assets of the Company of 80,974 thousand tenge for a period up to 13 October 2015 with the interest rate of 14%. Part of the interest on these loans at a rate of 7% are subsidized by the JSC Entrepreneurship Development Fund Damu as part of the state program Road Map 2020. The subsidy contracts have been concluded up to the expiry of the loan contracts. These loans are measured at fair value on the date of signing of the subsidy contracts (22 October 2010). Principal amount and interests are paid monthly. As at 31 December 2011, the Group recognized a fair value adjustment to the loans of 13,717 thousand tenge and recorded as a deferred income. As at 31 December 2012, the Group restored the fair value adjustment due to Company's Management board decision dated 28 December 2012 on advanced repayment of the loan.

On 10 February 2012, the Group entered into credit line agreement No.2 with JSC Halyk Bank of Kazakhstan with amount of 900,000 thousand tenge for replenishment of working capital for acquisition of equipment, commissioning works, supply of equipment and other expenditures associated with this equipment. The interest rate is from 8% to 8.3%. Principal amount and interests are paid monthly.

JSC BTA Bank

On 25 May 2010 and 31 May 2010 the Group entered into bank loans agreements with JSC BTA Bank for investment in long-term assets of the Group totaling 264,475 thousand tenge, for a period up to 31 May 2015 and the interest rate of 8% per annum. Principal amount and interest on loans paid monthly.

Part of the interest on these loans at a rate of 7% are subsidized by the JSC Entrepreneurship Development Fund Damu as part of the state program Road Map 2020. The subsidy contracts have been concluded up to the expiry of the loan contracts. These loans are measured at fair value on the date of signing of the subsidy contracts (19 January 2011). As at 31 December 2011, the Group recognized a fair value adjustment to the loans of 20,437 thousand tenge and recorded as a deferred income (Notes 22 and 25), which will be recognised in profit and loss on a systematic basis over the period of the loan agreement. In 2012, the Group recognised amortization of the fair value adjustment of 3,799 thousand tenge in other income and expenses (2011: 11,868 thousand tenge) and restored the adjustment of 3,227 thousand tenge. Thus, as at 31 December 2012, fair value adjustment of 13,411 thousand tenge is recorded as a deferred income (Notes 22 and 25).

On 17 August 2011, the Group signed a general agreement with JSC BTA Bank with tranches maturities up to 18 months with the credit limit of 850,000 thousand tenge, with the final settlement date in January 2015. Out of the total credit limit amount, 750,000 thousand tenge are financed by JSC Entrepreneurship Development Fund Damu. Principal amount is paid quarterly and interest on loans paid monthly.

On 18 December 2011, the Group entered into bank loan agreement with JSC BTA Bank for investment in long-term assets of the Group of 91,198 thousand tenge, with a maturity of up to 18 September 2016 and the interest rate of 12.25% per annum. Principal amount and interest on loans are paid monthly.

JSC Temir Bank

In 2011, the Group entered into a general bank loan agreement with JSC Temir Bank of 900,000 thousand tenge with a maturity of up to 7 April 2013 and the interest rate of 14%. Interests on the loan are paid monthly. During 2012, the Group fully repaid this loan.

JSC Eurasian Bank

In 2010-2011, the Group entered into general loan agreements with JSC Eurasian Bank. The interest rate on these loans ranged from 13% to 14.25%. During 2012, the Group fully repaid the loan to JSC Eurasian Bank.

As at 31 December 2012 и 2011, property, plant and equipment with carrying value of 1,708,249 thousand tenge and 2,449,376 thousand tenge, respectively, were pledged as collateral for above mentioned loans (Note 6).

JSC SWF Samruk-Kazyna

During 2008, the Company received an interest-free loan from the Shareholder for business development of 250,045 thousand tenge with maturity till 31 December 2012. The Company measured the fair value of these loans using the effective interest rate of 16.1%, and recognised a fair value adjustment of 117,779 thousand tenge, net of tax effect of 23,556 thousand tenge as additional paid-in capital in the consolidated statement of changes in equity. For the years ended 31 December 2012 and 2011, amortisation of discount of 22,218 thousand tenge and 30,002 thousand tenge, respectively, was recognized as finance costs (Note 32).

On 15 February 2012, the Company received a loan from Shareholder of 5,000,000 thousand tenge with annual interest rate of 3% with maturity till 30 December 2013. Principal amount is paid at maturity date and interests are paid monthly.

The loan is aimed for financing the creation of center for production of electronic-optical equipment in Kazakhstan and for creation of own production for moderisation, engineering-technical support and maintenance of military armored technics 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 additional paid-in capital in the consolidated statement of changes in equity. For the year ended 31 December 2012, amortisation of discount of 168,816 thousand tenge was recognized as finance costs (Note 32).

As at 31 December 2012 and 2011, all loans are denominated in tenge.

Loans repayment is made in the following terms:

	31 December 2011	31 December 2011
Within one year	6,220,430	2,440,297
Within second year	307,017	383,288
Within third year	101,568	101,095
In subsequent years	53,742	54,781
	6,682,757	2,979,461

20. DEBT SECURITIES ISSUED

	Maturity	Coupon rate	31 December 2012	31 December 2011
Bond issued at a price of: 95.2341% - Tranche 1	6 November 2015	5%	4,534,000	-
Including/(less):				
Accrued coupon			34,005	-
Discount on debt securities issued			(206,164)	-
Total bonds placed			4,361,841	-
Less: current portion of debt securities issued			(34,005)	-
Noncurrent portion of debt securities issued			4,327,836	-

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

On 7 December 2012, the Company placed on Kazakhstan Stock Exchange ("KASE") 45,340 local unsecured bonds (CFA-DBFUFR) 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.

21. FINANCE LEASE OBLIGATIONS

	Minimal lease payments		Present value of minimum lease payments	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Less than one year	410,571	162,787	345,031	152,792
From one to five years	1,461,767	605,497	1,074,546	479,222
More than five years	406,124	-	341,297	
	2,278,462	768,284	1,760,874	632,014
Less future finance costs	(517,588)	(136,270)	-	-
	1,760,874	632,014	1,760,874	632,014
Recognised in:				
- current liabilities			345,031	152,792
- non-current liabilities			1,415,843	479,222
			1,760,874	632,014

In 2007, the Group entered into finance lease agreement for production equipment with JSC DBK-Leasing for 10 years at an interest rate of 8%. The collateral for this agreement is obtained equipment.

Under this agreement the Group should make payment of principal and interest in the tenge, which are indexed to the exchange rate of US dollar at the payment date. The Group believes that this indexation is an embedded derivative that is not directly related to the host contract of the lease and, therefore, requires separate recognition. To determine the fair value of embedded derivative financial instruments the Group uses assessment methods that are widely used in the market and which require the use of market data. As at 31 December 2012, an embedded derivative amounted to 204,370 thousand tenge (31 December 2011: 183,230 thousand tenge). For the year ended 31 December 2012, the Group recognized a fair value adjustment of 21,140 thousand tenge to the embedded derivative as loss (2010: 28,417 thousand tenge).

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

Finance lease obligations are denominated in tenge.

22. OTHER NON-CURRENT LIABILITIES

	31 December 2012	31 December 2011
Long-term advances received	145,393	717,400
Dividends payable to Shareholder (Notes 16 and 37)	-	66,000
Other long-term payables to third parties	25,974	2,745
Deferred income – government grants (Note 19)	10,673	21,757
Other deferred income	-	3,451
Provisions	36,176	54,956
	218,216	866,309

As at 31 December 2012, provisions include accrued expenses on warranty services of 10,891 thousand tenge and other accrued expenses for settlement of harm to employees and other remunerations of 25,285 thousand tenge (2011: 54,956 thousand tenge and nil tenge, respectively).

Other non-current liabilities are denominated in tenge.

23. TRADE ACCOUNTS PAYABLE

	31 December 2012	31 December 2011
Accounts payable to suppliers and contractors	1,700,339	668,188
Accounts payable to related parties (Note 37)	2,211,214	51,743
	3,911,553	719,931

Trade accounts payable are donomiated in the following currencies:

	31 December 2012	31 December 2011
Tenge	2,916,702	649,408
US dollars	602,070	69,110
Russian roubles	392,781	1,413
	3,911,553	719,931

24. OTHER TAXES PAYABLE

	31 December 2012	31 December 2011
VAT payable	1,112,089	713,924
Pension and social contributions	147,283	129,086
Personal income tax	88,953	90,055
Social tax	70,359	60,850
Other taxes	8,523	30,500
	1,427,207	1,024,415

25. OTHER CURRENT LIABILITIES

	31 December 2012	31 December 2011
Advances received from third parties	2,212,986	1,731,641
Advances received from related parties (Note 37)	863,358	142,732
Provisions	1,442,097	774,791
Dividends payable to third parties	179,583	87,728
Dividends payable to Shareholder (Notes 16 and 37)	66,000	50,000
Salary payable	236,877	128,513
Deferred income – government grants (Note 19)	2,738	12,397
Other deferred income	6,325	240
Other payables	183,526	5,613
	5,193,490	2,933,655

As at 31 December 2012, provisions include accrued expenses on warranty services of 532,549 thousand tenge (2011: 117,448 thousand tenge), unused vacation of 788,256 thousand tenge (2011: 263,814 thousand tenge) and other accrued expenses of 121,292 thousand tenge (2011: 392,529 thousand tenge).

Other current liabilities are denominated in tenge.

26. REVENUE

	2012	2011
Revenue from finished goods sale	42,372,771	28,964,924
Revenue from rendering services	9,780,843	4,655,063
Other	-	3,207
	52,153,614	33,623,194

In 2012, revenue from related party operations amounted to 43,256,129 thousand tenge (2011: 26,220,456 thousand tenge) (Note 37).

27. COST OF SALES

	2012	2011
Raw materials	32,499,723	22,275,560
Payroll and related taxes	6,199,214	3,623,141
Subcontractors' services	1,327,019	2,208,973
Depreciation and amortisation	505,444	519,858
Utilities	516,227	409,198
Repair and maintenance	1,700,627	177,626
Other	797,926	420,890
	43,546,180	29,635,246
Work-in-progress at the beginning of the year	3,305,142	2,181,718
Work-in-progress at the end of the year (Note 10)	3,499,630	3,305,142
Change in work-in-progress	(194,488)	(1,123,424)
Finished goods at the beginning of the year	2,142,640	1,853,541
Finished goods at the end of the year (Note 10)	2,101,415	2,142,640
Change in finished goods	41,225	(289,099)
	43,392,917	28,222,723

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Payroll and related taxes	2,058,890	1,372,912
Taxes	235,419	217,931
Professional services	123,025	164,606
Fines and penalties	32,691	155,041
Depreciation and amortisation	136,828	111,610
Business trips and representative expenses	190,032	107,224
Accrual of provision for employees remuneration	6,452	69,000
Utilities	116,083	63,810
Bank commissions	73,021	60,402
Repair and maintenance	19,290	59,906
Rent expenses	124,727	58,473
Accrual of provision for unused vacation	82,356	56,327
(Recovery)/accrual of allowance for obsolete inventories (Note 10)	(56,046)	56,078
Communication	27,799	30,963
Materials	34,239	27,848
Transportation	16,861	25,797
Education of personnel	22,657	18,586
Charity and sponsorship	16,817	12,502
Security	20,422	12,121
Accrual/(recovery) of allowance for doubtful debts (Notes 11 и 14)	32,936	(38,304)
Other	492,928	212,825
	3,807,427	2,855,658

29. SELLING EXPENSES

	2012	2011
Transportation	236,610	200,234
Payroll and related taxes	223,121	112,957
Integration expenses	-	103,075
VAT non-recoverable	153,611	61,275
Business trips	85,033	51,947
Advertising and marketing	77,705	14,241
Depreciation and amortization	13,664	13,392
Utilities	5,813	2,609
Other	46,292	80,754
	841,849	640,484

30. OTHER PROFIT AND LOSSES

	2012	2011
Gain from disposal of property, plant and equipment	569,199	393,710
Income from inventory sale	65,342	152,845
Rent income	93,021	47,969
Loss from impairment of property, plant and equipment	-	(24,925)
Depreciation and amortization	(3,954)	(1,685)
Loss on disposal of intangible assets	(36,255)	(46)
Charity	(54,560)	(12,502)
Other losses	(14,628)	(52,836)
	618,165	502,530

31. FINANCE INCOME

	2012	2011
Interest on short-term deposits and current accounts	268,219	71,637
Amortisation of fair value adjustment on loans given	46,599	7,894
	314,818	79,531

Finance income on short-term deposits and current accounts from related parties amounted to 7,033 thousand tenge (2011: 21,887 thousand tenge) (Note 37).

32. FINANCE COSTS

	2012	2011
Interest on loans	406,462	280,462
Coupon on bonds issued (Note 20)	34,005	-
Interest on finance lease	128,506	68,540
Amortisation of fair value adjustment on loans received from Shareholder (Note 19)	191,034	30,002
Amortisation of discount on bonds issued	9,924	-
Dividends on preferred shares	20,955	10,854
	790,886	389,858

Finance costs from related parties amounted to 588,594 thousand tenge (2011: 218,764 thousand tenge) (Note 37).

33. TAXATION

	2012	2011
Current income tax expense	813,667	524,519
Adjustment of current income tax for prior years	-	92,194
Deferred tax benefit	(143,300)	(34,784)
Income tax expense	670,367	581,929

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

	2012	2011
Profit before income tax from continuing operations	5,208,333	2,846,016
Theoretical income tax at official tax rate of 20%	1,041,667	569,203
Tax effect of permanent differences	(171,855)	66,037
Adjustment of current income tax for prior years	-	92,194
Share of profit in associates and joint ventures not taxable	(199,445)	(145,505)
	670,367	581,929

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2012 и 2011:

	At 31 December 2011	Recognised in profit and loss	Recognised in equity	Disposal of subsidiary	At 31 December 2012
Property, plant and equipment	(877,283)	(25,171)	-	-	(902,454)
Trade accounts receivable	8,826	11,103	-	-	19,929
Inventory	72,849	(11,208)	-	-	61,641
Provisions	165,949	132,065	-	-	298,014
Taxes payable	18,270	(2,676)	-	-	15,594
Financial liability at fair value through profit or loss	36,646	4,228	-	-	40,874
Loans received	-	33,764	(55,117)	-	(21,353)
Loans given	-	6,362	-	-	6,362
Tax losses carried forward	64,375	(5,167)	-	(3,773)	55,435
	(510,368)	143,300	(55,117)	(3,773)	(425,958)

	At 1 January 2011	Recognised in profit and loss	At 31 December 2011
Property, plant and equipment	(850,984)	(26,299)	(877,283)
Trade accounts receivable	7,264	1,562	8,826
Inventory	64,308	8,541	72,849
Provisions	36,562	129,387	165,949
Taxes payable	10,040	8,230	18,270
Financial liability at fair value through profit or loss	30,963	5,683	36,646
Tax losses carried forward	156,695	(92,320)	64,375
	(545,152)	34,784	(510,368)

34. DISPOSAL OF SUBSIDIARY

On 1 October 2012, the Company sold its 51% ownership interest in Kazakhstan engineering Distribution LLP.

	31 December 2012
Consideration received	
Consideration received in cash	8,507
Total Consideration received	8,507
Asset and liabilities of disposed subsidiary	
Current assets:	
Cash and cash equivalents	71
Inventory	687
Accounts receivable	5,653
Prepaid income tax	287
Other current assets	7,329
Non-current assets:	
Property, plant and equipment	7,303
Intangible assets	76
Deferred tax assets	3,773
Current liabilities:	
Accounts payable	(14,874)
Taxes payable and other obligatory payments	(15,897)
Other current liabilities	(25,277)
Net liabilities disposed	(30,869)
Gain on disposal of a subsidiary	
Consideration received	8,507
Net liabilities disposed of	30,869
Investment in associate at loss of control	955
Gain on disposal	40,331

	2012
Profit/(loss) from discontinued operations	
Revenue	246,158
Other income	3,638
	249,796
Expenses	(269,559)
Loss before income tax	(19,763)
Income tax benefit	12
Net loss for the period	(19,751)
Gain on disposal	40,331
Profit for the year from discontinued operations	20,580

35. CONTINGENT LIABILITIES

Taxation and regulatory environment

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

Legal matters

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

Environmental matters

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

Insurance

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2012.

Market limitation

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

Capital commitments

As at 31 December 2012 and 2011, the Group has number of commitments for acquisition of property, plant and equipment of 700,371 thousand tenge and 89,052 thousand tenge, respectively.

36. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

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

Capital adequacy management

The Group manages its capital adequacy, to ensure that the Group will continue to work as a going concern while maximizing profits for the Shareholder through the optimization of the balance of debt and equity. Structure of the Group's equity includes charter capital, additional paid-in capital and retained earnings.

Significant accounting policies

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

Financial risk management objectives

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

Interest rate risk

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

Currency risk

The amounts of short-and long-term liabilities of the Group denominated in foreign currencies are presented in tenge in the consolidated financial statements. As a result of exchange rate of the tenge against the foreign currency gain or loss arises from exchange rate differences. Foreign currency risk is not significant for the Group as financial assets and liabilities are mainly denominated in tenge.

Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is the sum of its trade receivables (Note 11) and other current assets (Note 14), 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 fulfill its obligations.

The maximum exposure to credit risk for trade receivables at the reporting date, and by geographic regions was as follows:

	31 December 2012	**31 December 2011**
Within the country	1,806,440	1,158,227
Outside the country	10,609	1,115
	1,817,049	1,159,342

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

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

As at 31 December 2012 and 2011, distribution of trade receivables by ageing was as follows:

	31 December 2012	31 December 2011
Not overdue	1,762,336	599,927
Overdue by 3-6 months	54,713	487,744
Overdue by 6-12 months	-	71,671
Overdue by more than 12 months	45,542	44,132
	1,862,591	1,203,474

Market risk

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

Liquidity risk

The Group monitors the liquidity risk of short-term, medium-and long-term financing in accordance with the requirements of the Shareholder. The Group manages liquidity risk by maintaining adequate reserves, bank loans and available credit lines by continuously monitoring forecast and actual cash flows and comparing the maturity of financial assets and liabilities.

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

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2012						
Non-interest bearing:						
Trade accounts payable	-	3,911,553	-	-	-	3,911,553
Other liabilities	-	302,877	363,109	25,974	205,072	897,032
Interest bearing:						
Loans	8%-16%	168,743	5,650,482	1,549,518	-	7,368,743
Issued bonds	5%	113,350	113,350	4,987,400	-	5,214,100
Finance lease	7.5%-8%	33,056	377,515	1,461,767	406,124	2,278,462

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2011						
Non-interest bearing:						
Trade accounts payable	-	719,931	-	-	-	719,931
Other liabilities	-	134,126	137,728	68,745	197,846	538,445
Interest bearing:						
Loans	8%-14%	1,527,130	1,101,142	573,745	-	3,202,017
Finance lease	8%	81,394	81,394	605,496	-	768,284

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

	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
2012						
Interest bearing:						
Short-term deposits	3.8%-6%	934,906	-	-	-	934,906
Finance lease receivables	-	-	-	-	157,638	157,638
Non-interest bearing:						
Cash and cash equivalents, less petty cash	-	9,174,840	-	-	-	9,174,840
Restricted cash	-	87,062	-	-	-	87,062
Trade accounts receivable	-	1,817,049			45,542	1,862,591
Other assets	-	2,735,531	68,952	-	56,620	2,861,103

	Процентная ставка	1 месяц – 1 год	1-5 лет	Свыше 5 лет	Неопреде-ленный срок погашения	Итого
2011						
Interest bearing:						
Short-term deposits	4%-5%	81,005	-	-	-	81,005
Finance lease receivables	-	12,893	2,788	-	-	15,681
Non-interest bearing:						
Cash and cash equivalents, less petty cash	-	3,373,076	-	-	-	3,373,076
Restricted cash	-	82,391	-	-	-	82,391
Trade accounts receivable	-	1,159,342	-	-	44,132	1,203,474
Other assets	-	514,016	29,670	-	18,347	562,033

Fair value of financial instruments

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

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

Cash and cash equivalents

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

Trade and other accounts receivable and payable

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

Loans

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

As at 31 December 2012 and 2011, fair value of financial assets and financial liabilities did not differ significantly from their carrying value.

37. RELATED PARTY TRANSACTIONS

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

Transactions with related parties undertaken by the Group for the years ended 31 December 2012 and 2011, were mainly conducted in the ordinary course of business and on arm's-length terms equivalent to those that prevail in transactions between independent parties.

Trade accounts receivable (Note 11)

	2012	2011
JSC NC Kazakhstan Temir Zholy	599,216	398,909
JSC NC KazMunaiGas	19,957	224,657
LLP Repair Corporation Kamkor	126,615	-
JSC NAC Kazatomprom	2,351	-
Other	657	270
	748,796	623,836

Dividends receivable (Note 14)

	2012	2011
JSC ZIKSTO	71,592	-

Trade accounts payable (Note 23)

	2012	2011
Eurocopter Kazakhstan engineering LLP	2,180,952	-
JSC NC Kazakhstan Temir Zholy	23,278	28,404
JSC NC KazMunaiGas	30	-
JSC Samruk Energy	4,697	21,286
Other	2,257	2,053
	2,211,214	51,743

Advances given (Notes 9 and 14)

	2012	2011
JSC Development Bank of Kazakhstan	-	223,852
JSC NC KazMunaiGas	12,568	10,910
Other	8,238	2,074
	20,806	236,836

Loans given (Note 14)

	2012	2011
Kazakhstan ASELSAN engineering LLP	2,200,000	50,000
Less fair value adjustment	(31,810)	(5,418)
	2,168,190	44,582

In September 2011, the Group provided interest-free loans to jointly controlled company, Kazakhstan ASELSAN engineering LLP, in the amount of 250,000 thousand tenge and 50,000 thousand tenge with a maturity of 30 November 2011 and 31 December 2012, respectively. The Group has assessed these loans at amortized cost using the market interest rate of 11.5% per annum on the date of issuance of the loans and recorded a fair value adjustment in the investments in associates in the amount of 10,436 thousand tenge. Also, during 2011, the Group recognized amortization of discount in finance income in the amount of 7,627 thousand tenge (Note 31). Loan in the amount of 250,000 thousand tenge was repaid in December 2011, and the loan in the amount of 50,000 thousand tenge was repaid in December 2012

In 2012, the Group issued interest-free loans to jointly controlled companies Kazakhstan ASELSAN engineering LLP, for a total amount of 2,200,000 thousand tenge with a maturity of 31 March 2013. The Group has assessed these loans at amortized cost using the market interest rate of 7% per annum on the date of issuance of the loans and recorded a fair value adjustment in the investments in associates in the amount of 72,991 thousand tenge. Also, during 2012, the Group recognized amortization of discount in finance income in the amount of 41,182 thousand tenge (Note 31).

Cash and cash equivalents and restricted cash

	2012	2011
JSC BTA Bank (cash and cash equivalents)	6,098,287	2,946,204
JSC Temir Bank (cash and cash equivalents)	73,320	160,140
JSC Alliance Bank (cash and cash equivalents)	6,706	132
JSC BTA Bank (restricted cash)	80,947	79,701
	6,259,260	3,186,177

Loans received (Note 19)

	2012	2011
JSC BTA Bank	853,913	1,143,329
JSC Temir Bank	-	728,807
JSC SWF Samruk-Kazyna	5,017,084	150,045
Less fair value adjustment	(106,767)	(22,218)
	5,764,230	1,999,963

Advanced received (Note 25)

	2012	2011
JSC NC Kazakhstan Temir Zholy	7,602	97,795
JSC NC KazMunaiGas	855,605	44,937
Other	151	-
	863,358	142,732

Dividends payable to Shareholder (Notes 16, 22 and 25)

	2012	2011
Accrued for the period	693,205	116,000
Liability at reporting date	66,000	116,000

Revenue (Note 26)

	2012	2011
Ministries and agencies	32,279,127	17,925,532
JSC NC KazMunaiGas	5,794,747	3,450,671
JSC NC Kazakhstan Temir Zholy	4,693,805	3,989,016
JSC NAC Kazatomprom	118,543	801,118
JSC Kazpost	-	50,000
LLP Repair Corporation Kamkor	362,078	-
Other	7,829	4,119
	43,256,129	26,220,456

Expenditures on services rendered and goods acquired

	2012	2011
Eurocopter Kazakhstan engineering LLP	13,478,486	10,583,079
JSC Aviarepair plant No.405	573,601	-
JSC NC KazMunaiGas	42,514	16,410
JSC NC Kazakhstan Temir Zholy	204,532	213,952
JSC Samruk Energy	53,278	53,901
JSC Kazakhtelecom	5,094	5,582
LLP Repair Corporation Kamkor	-	-
Other	910	1,014
	14,358,415	10,873,938

Finance income (Note 31)

	2012	2011
JSC BTA Bank	7,033	21,887
Kazakhstan ASELSAN engineering LLP	41,181	7,894
	48,214	29,781

Finance costs (Note 32)

	2012	2011
JSC BTA Bank	55,845	54,230
JSC Temir Bank	81,542	65,992
JSC DBK Leasing	128,506	68,540
JSC SWF Samruk-Kazyna (interests and amortization of discount)	322,701	30,002
	588,594	218,764

For the years ended 31 December 2012 and 2011, compensation to key management personnel amounted to 225,051 thousand tenge and 134,735 thousand tenge, respectively.

38. EVENTS AFTER REPORTING DATE

On 3 January 2013, the Group repaid a loan from JSC Halyk Bank of Kazakhstan of 910,600 thousand tenge.

On 14 February 2013, the Group additionally placed bonds in the amount of 3,617,299 thousand tenge with coupon rate of 5%.

On 15 February 2013, the Group received a loan from the Sole shareholder for working capital replenishment in the amount of 4,700,000 thousand tenge with a maturity of up to 31 December 2013 with an interest rate of 4%.

On 13 March 2013, the Group additionally placed bonds in the amount of 969,239 thousand tenge with coupon rate of 5%.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

Consolidated financial statements
for the year ended 31 December 2011

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONTENT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management of JSC National Company Kazakhstan Engineering (the "Company") and its subsidiaries (hereinafter – the "Group") is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position as at 31 December 2011, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2011 were approved and authorized for issue by management of JSC National Company Kazakhstan Engineering on 30 July 2012.

Signed on behalf of management of the Group

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

Aliya Zhetenova	**Bolat Mukushev**
Managing Director	**Director of corporate finance and accounting department**

30 July 2012
Astana, Kazakhstan

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company National Company Kazakhstan Engineering (the "Company") and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated 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 Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements for the year ended 31 December 2010 were audited by another auditor, who expressed a qualified opinion on those consolidated financial statements dated 29 July 2011 in respect of a) property, plant and equipment and inventory due to non-observing the physical counting of the property, plant and equipment and inventories as at 31 December 2010, b) property, plant and equipment due to non-performing impairment test, c) investments in associates and joint ventures due to nonprovision of the audited financial statements of these companies. As part of our audit of the consolidated financial statements for the year ended 31 December 2011, we audited the adjustments and reclassifications described in Note 5 that were applied to amend the consolidated financial statements for the year ended 31 December 2010. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Group's consolidated financial statements for the year ended 31 December 2010 other than with respect to the adjustments and reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended 31 December 2010 taken as a whole, on which an opinion was given by predecessor auditor.

Deloitte, LLP

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate No.0000314
dated 23 December 1996,
Republic of Kazakhstan

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

30 July 2012
Almaty, Kazakhstan

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSTITION
AS AT 31 DECEMBER 2011
(in thousands of tenge)

	Notes	31 December 2011	31 December 2010 (restated*)	1 January 2010 (restated*)
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	6	7,298,784	7,645,803	7,770,138
Investment property		54,753	-	-
Intangible assets		164,779	158,480	153,906
Long-term investments		4,417	5,491	5,491
Investments in associates and joint-ventures	7	3,516,279	1,532,753	1,055,899
Deferred tax assets	29	132,567	79,264	29,428
Other non-current assets	8	342,252	108,304	31,223
Total non-current assets		11,513,831	9,530,095	9,046,085
CURRENT ASSETS:				
Inventory	9	8,197,964	5,834,294	5,832,674
Trade accounts receivable	10	1,159,342	1,199,402	976,372
Income tax prepaid		79,156	90,021	211,835
Value added tax and other taxes recoverable	11	557,558	260,182	206,892
Restricted cash		82,391	81,844	-
Other current assets	12	2,268,510	847,677	600,547
Cash and cash equivalents	13	3,485,674	6,467,246	751,668
		15,830,595	14,780,666	8,579,988
Non-current assets classified as held-for-sale		64,004	55	55
Total current assets		15,894,599	14,780,721	8,580,043
TOTAL ASSETS		27,408,430	24,310,816	17,626,128
EQUITY AND LIABILITIES				
EQUITY:				
Charter capital	14	12,101,802	12,101,802	7,381,594
Additional paid-in-capital	15	522,835	522,835	522,835
Retained earnings		3,874,545	1,856,543	1,395,840
Equity attributable to Parent of the Company		16,499,182	14,481,180	9,300,269
Non-controlling interests	16	573,174	458,597	402,181
Total equity		17,072,356	14,939,777	9,702,450
NON-CURRENT LIABILITIES:				
Deferred tax liabilities	29	642,935	624,416	788,776
Debt component of preferred shares		197,846	182,338	173,579
Loans	17	539,164	342,724	177,250
Finance lease obligations	18	479,222	602,553	492,792
Other non-current liabilities	19	866,309	1,077,329	52,774
Total non-current liabilities		2,725,476	2,829,360	1,685,171

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2011
(in thousands of tenge)

	Notes	31 December 2011	31 December 2010 (restated*)	1 January 2010 (restated*)
CURRENT ASSETS:				
Loans and current portion of long-term loans	17	2,440,297	1,480,277	1,114,324
Current portion of finance lease obligations	18	152,792	57,504	206,024
Financial liability at fair value through profit or loss	18	183,230	154,813	203,864
Trade accounts payable	20	719,931	1,403,212	1,269,103
Income tax payable		156,278	71,538	44,810
Other taxes payable	21	1,024,415	457,597	206,008
Other current liabilities	22	2,933,655	2,916,738	3,194,374
Total current liabilities		7,610,598	6,541,679	6,238,507
TOTAL EQUITY AND LIABILITIES		27,408,430	24,310,816	17,626,128

***Restated, as described in Note 5**

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director

Bolat Mukushev
Director of corporate finance and accounting department

30 July 2012
Astana, Kazakhstan

The notes on pages 10-48 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLDIATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of tenge)

	Notes	2011	2010 (restated*)
REVENUE	23	33,623,194	15,862,029
COST OF SALES	24	(28,222,723)	(13,179,533)
GROSS PROFIT		5,400,471	2,682,496
General and administrative expenses	25	(2,855,658)	(2,059,167)
Selling expenses	26	(640,484)	(312,252)
Other profit and losses	27	502,530	41,937
Gain/(loss) from foreign exchange differences		50,374	(19,422)
Share of profit in associates and joint ventures	7	727,527	476,507
(Loss)/gain on financial liabilities at fair value through profit and loss	18	(28,417)	49,051
Finance income		79,531	26,226
Finance costs	28	(389,858)	(297,583)
PROFIT BEFORE INCOME TAX		2,846,016	587,793
INCOME TAX EXPENSE	29	(581,929)	(61,915)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,264,087	525,878
Net profit and total comprehensive income attributable to:			
Parent of the Company		2,149,510	469,462
Non-controlling interests	16	114,577	56,416
		2,264,087	525,878

***Restated, as described in Note 5**

Signed on behalf of management of the Group

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

Aliya Zhetenova
Managing Director department

Bolat Mukushev
Director of corporate finance and accounting

30 July 2012
Astana, Kazakhstan

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JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands of tenge)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to Parent of the Company	Non-controlling interests	Total
At 1 January 2010 (as previously issued)		7,381,594	428,612	1,623,618	9,433,824	420,444	9,854,268
Correction of errors (Note 5)		-	94,223	(227,778)	(133,555)	(18,263)	(151,818)
At 1 January 2010 (restated*)		7,381,594	522,835	1,395,840	9,300,269	402,181	9,702,450
Net profit and total comprehensive income for the year (restated*)		-	-	469,462	469,462	56,416	525,878
Measurement of debt component of preferred shares (restated*)		-	-	(8,759)	(8,759)	-	(8,759)
Shares issuance		4,720,208	-	-	4,720,208	-	4,720,208
At 31 December 2010 (restated*)		12,101,802	522,835	1,856,543	14,481,180	458,597	14,939,777
Net profit and total comprehensive income for the year		-	-	2,149,510	2,149,510	114,577	2,264,087
Measurement of debt component of preferred shares		-	-	(15,508)	(15,508)	-	(15,508)
Dividends paid	14	-	-	(116,000)	(116,000)	-	(116,000)
At 31 December 2011		12,101,802	522,835	3,874,545	16,499,182	573,174	17,072,356

***Restated, as described in Note 5**

Signed on behalf of management of the Group:

Aliya Zhetenova
Managing Director

Bolat Mukishev
Director of corporate finance and accounting department

30 July 2012
Astana, Kazakhstan

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JSC NATIONAL COMPANY KAZAKHSTAN ENGINEERING AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of tenge)

	Notes	2011	2010 (restated*)
OPERATING ACTIVITY:			
Profit before income tax		2,846,016	587,793
Adjustments for:			
Amortisation and depreciation	24, 25, 26	644,860	598,171
Impairment of property, plant and equipment	6	24,925	160,257
Allowance for doubtful accounts	25	(38,304)	51,296
Allowance for obsolete inventories	25	56,078	(21,879)
(Gain)/loss from property, plant and equipment disposal	27	(393,664)	23,804
(Gain)/loss from foreign exchange differences		(50,374)	19,422
Loss from investments disposal		1,074	-
Share of profit in associates and joint-venture	7	(727,527)	(476,507)
Loss/(profit) on financial liabilities at fair value through profit and loss	18	28,417	(49,051)
Warranty provision		113,830	58,574
Unused vacation provision		145,423	(36,616)
Accrued expenses for delivering services		392,792	-
Other provisions		(5,109)	5,846
Finance costs	28	389,858	297,583
Cash flows from operating activity before changes in working capital		3,428,295	1,218,693
Changes in working capital:			
Change in inventory		(2,397,235)	(26,773)
Change in trade accounts receivable		31,889	(204,519)
Change in value added tax and other taxes recoverable		(297,376)	(53,290)
Change in other assets		(1,407,251)	(272,262)
Change in trade accounts payable		(632,907)	114,687
Change in taxes payable		583,074	391,715
Change in other liabilities		(1,089,175)	799,244
Cash (used in)/generated by operating activity		(1,780,686)	1,967,495
Interests paid		(357,820)	(275,687)
Income tax paid		(537,364)	(267,695)
Net cash (used in)/generated by operating activity		(2,675,870)	1,424,113
INVESTMENT ACTIVITY:			
Acquisition of property, plant and equipment	6	(717,633)	(537,589)
Acquisition of intangible assets		(22,537)	(19,255)
Advances paid for non-current assets	8	(240,249)	(24,724)
Acquisition of investments in associates and joint ventures	7	(1,319,595)	(87,261)
Short-term loans given		(307,000)	(50,000)
Repayment for short-term loans given		307,000	-
Dividends received	7	74,246	86,914
Proceeds from disposal of property, plant and equipment		692,098	114,581
Acquisition of short-term investments		(547)	(81,844)
Net cash used in investing activity		(1,534,217)	(599,178)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)
(in thousands of tenge)

	Notes	2011	2010 (restated*)
FINANCING ACTIVITY:			
Contribution to charter capital	14	-	4,500,000
Loans received		7,246,081	1,904,018
Loans repaid		(5,919,378)	(1,442,366)
Finance lease repaid		(20,373)	(65,377)
Dividends paid		(77,815)	(5,632)
Net cash generated by financing activity		1,228,515	4,890,643
CHANGE IN CASH AND CASH EQUIVALENTS, net		(2,981,572)	5,715,578
CASH AND CASH EQUIVALENTS, at the beginning of the year	13	6,467,246	751,668
ДЕНЕЖНЫЕ СРЕДСТВА И ИХ ЭКВИВАЛЕНТЫ, на конец года	13	3,485,674	6,467,246

Significant non-cash transactions:

For the years ended 31 December 2011 and 2010:

	2011	2010 (restated*)
Contribution to charter capital of the Company (Note 14)	-	220,208

***Restated, as described in Note 5**

Signed on behalf of management of the Group

Aliya Zhetenova
Managing Director department

Bolat Mukushev
Director of corporate finance and accounting

30 July 2012
Astana, Kazakhstan

The notes on pages 10-48 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

1. GENERAL INFORMATION

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

As at 31 December 2011, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna. From 20 July 2009 till 15 June 2010, Company's shares were under asset management with the Ministry of Industry and Trade of the Republic of Kazakhstan. On 15 June 2010, shares were transferred for asset management to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company and its subsidiaries are:

- participation in state policy on development, production, realisation and liquidation of goods and equipment of defence, civil and twofold purposes;
- participation in development and realisation of current and long-term inter-industry development and production programs of defence and twofold purpose products 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.

These consolidated financial statements include financial statements of the Company and its following subsidiaries (together referred as the "Group"):

Subsidiary	Nature of operation	Country	Ownership share		
			31 December 2011	31 December 2010	1 January 2010
JSC 811 Motor-repair Plant KE	Repair of vehicles, armored machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%	100%
JSC Plant after Kirov	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%	84%
LLP Kazakhstan engineering Distribution	Distribution of Group's produced goods, investments attraction, participation in state programs and state purchases for equipment supply	Kazakhstan	100%	100%	100%
JSC Machinery plant after Kirov	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%	98%
JSC Munaimash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%	93%
JSC Instrument making plant Omega	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%	99%
JSC Petropavlovsk heavy machinery construction plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of special products, production and modernization of modern military hardware	Kazakhstan	100%	100%	100%
JSC Semei engineering	Repair of armored military vehicles, engines, car shipping	Kazakhstan	100%	100%	100%
JSC Semipalatinsk machinery construction plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%	99%
Kuzet LLP	Security	Kazakhstan	100%	100%	100%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%	99%
JSC Uralsk plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%	100%
The united center of armament controlling systems introduction LLP	Design and development of new types of special products for the defense industry, with the use of automated control systems for weapons	Kazakhstan	100%	100%	100%

As at 31 December 2011 and 2010, the Group also had investments in associates and joint ventures, described in Note 7.

Legal adress: 36, Auezov str., Astana, Republic of Kazakhstan

Number of employees of the Group as at 31 December 2011 was 4,730 people (31 December 2010: 4,400 people).

The consolidated financial statements for the year ended 31 December 2011 was approved by management and authorized for issue on 30 July 2012.

Operating environment

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Republic of Kazakhstan and Kazakhstan's economy in general.

Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation within the Republic of Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Republic of Kazakhstan. The future economic direction of the Republic of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Kazakhstan's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Due to the fact that Kazakhstan produces and exports large quantities of oil and gas, the economy of Kazakhstan particularly sensitive to changes in world prices for oil and gas, which in 2011 and 2010 have been subject to considerable fluctuations.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations adopted during the current year

The Group adopted the following new and revised Standards and Interpretations during the current year:

- IAS 1 Presentation of financial statements
- IAS 24 Related party disclosure (revised in 2010)
- IFRIC 14 Prepayments of a minimum funding requirements
- IFRIC 19 Extinguishing financial liabilities with equity
- IAS 32 Financial instruments: presentation – classification of rights issues (amendment)
- IFRS 3 Business combinations

In addition, the Group 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 consolidated financial statements, issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no material effect on amounts reported.

The adoption of the above standards had no impact on the results of operations or financial position.

Standards and Interpretations in issue to be adopted in future periods

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

	Effective for annual periods beginning on or after
Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of financial assets	1 July 2011
IFRS 9 Financial instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets	1 January 2012
IAS 19 (as revised in 2011) Employee Benefits	1 January 2013
IAS 27 (as revised in 2011) Separate Financial Statements	1 January 2013
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	1 January 2013

In May 2011, a package of five standards was issued (IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011)), in which the consolidations, joint arrangements, investments in associates and disclosure of information issues were considered. These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipates that all of the above five standards will be adopted in the Group's consolidated financial statements for the period commencing 1 January 2013 and that the adoption of these standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application. However, detailed assessment of the effect of application of the abovementioned standards have not been performed yet, including quantitative assessment of changes.

Management of the Group anticipates that the adoption of all of the above other standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are required to be stated at fair value.

Going concern basis

These consolidated financial statements have been prepared on a going concern basis and that there is no indicators that the Group has intention or is required to liquidate or significantly decrease its operations in the foreseeable future. This basis assumes the realization of assets and discharge of liabilities in the normal course of business of the Group within the foreseeable future.

Functional and presentation currency

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

Foreign currency transactions

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises (including special purpose entities) controlled by the Company (its subsidiaries). The company is controlled by the Company if the Company's management can determine the financial and operating policies of an entity so as to obtain benefits for the Company from its activities.

Revenues and expenses of subsidiaries acquired or sold during the year are included in the consolidated statement of comprehensive income, beginning with the date of their actual purchase or before the effective date of disposal, respectively. Total comprehensive income of subsidiaries relates to the shareholders of the Company and Non-controlling interests (NCI), even if it leads to a negative balance of NCI.

If necessary, the financial statements of subsidiaries are adjusted to align their accounting policies with the principles of the Group's accounting policies.

All transactions between Group companies, balances and unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any NCI.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a contractual arrangement whereby one or more parties undertake an economic activity that is subject to joint control. Investments in associates/joint ventures are recognized in the consolidated statement of financial position at cost, plus the change in the Group's share of net assets of the associate/joint venture after the acquisition, less impairment. When the Group's share of losses in these entities exceeds the Group's ownership in an entity (which includes any long-term share ownership, which, in fact, form part of the Group's net investment in the organization), the Group ceases to recognize its share of further losses. The Group's share in the profits and losses of associates/joint ventures is recognized in the consolidated statement of comprehensive income of the Group.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The actual (initial) cost of property, plant and equipment at 31 December 2006 was determined by an independent appraiser based on their fair value at that date. Cost includes all costs directly attributable to the acquisition of the asset.

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

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

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

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

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

Intangible assets

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

Investment property

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. 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 in which the property is derecognised.

Impairment of tangible and intangible assets

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

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

Inventories

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

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

Recognition of financial instruments

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

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

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

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

Financial assets

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

Cash and cash equivalents

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

Trade accounts receivable

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

Loans and other receivables

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

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

Other financial assets

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

Impairment of financial assets

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

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

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

Financial liabilities and equity instruments

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

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

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

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

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

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

Construction contracts

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

Leasing

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

The Group as lessor

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

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

The Group as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance 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 Group's general policy on borrowing costs (see note below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

Government grants

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Borrowing costs

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

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

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

Pension fund liabilities

The Group makes payments to 10% of employees' salaries as contributions to pension funds, but not more than 119,992 tenge per month (2010: not more than 112,140 tenge). Payments to pension funds deducted from employees' salaries and are included in the total cost of salaries and deductions in the consolidated statement of comprehensive income.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

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

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

Current and deferred tax for the year

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

Provisions

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

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

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

Related party transactions

The following parties are deemed related parties in the preparation of these consolidated financial statements:

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:
   i) controls, is controlled by, or is under common control with the Group (this includes holding companies, subsidiaries and fellow subsidiaries);
   ii) has an interest in the entity that gives it significant influence over the Group; or

iii) has joint control over the Group;

(b) the party is an associate of the Group;
(c) the party is a joint venture in which the entity is a venturer;
(d) the party is a member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party provides a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Recognition and estimation of debt component of preferred shares

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

Useful lives of property, plant and equipment

As described in Note 3, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The assessment of the useful life of an asset is dependent upon factors such as economic use, repair and maintenance programs, technological advancements and other business conditions. Management's assessment of the useful lives of property, plant and equipment reflects relevant information available to it as at the date of these consolidated financial statements.

Warranty obligations

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

Impairment of assets

At the end of each reporting period the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as expectations of growth, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate any impairment exists.

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

Valuation of inventories

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

Taxation

Various Kazakhstani legislation acts and regulations are not always clearly written. There may be cases of different interpretations between local, regional and national tax authorities. Thus, in the case of accrual of additional taxes by the tax authorities, the existing fines and penalties are set in a large size, the size of the penalty is 50% of the amount of additional taxation, and the penalty is 22.5% of the amount of tax paid late. As a result, fines and penalties may exceed the amount of additionally accrued taxes.

Due to the uncertainties stated above, the potential amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2011. The differences between estimates and actually paid amounts, if any, may have a significant effect on the Group's future profits.

Финансовые обязательства по справедливой стоимости через прибыль или убыток

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value using market data, such as forward currency exchange rates and the risk-free discount rate.

5. RESTATEMENT OF COMPARATIVE INFORMATION AND RECLASSIFICATIONS

In preparing the consolidated financial statements for the year ended 31 December 2011, management made a restatement of some comparative information for prior years to correct the errors of previous years in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Restatement of items of the statements of financial position, comprehensive income and cash flows is mainly associated with the following:

- The Group incorrectly recognised income from construction contracts of ships for the year ended 31 December 2010. As a result, short-term advances received, as reflected in the other current liabilities, were recognised as a revenue; VAT payable was recognised, as well as work-in-progress had been written-off to cost of sales.
- In 2008, the Company received an interest-free financial aid from the Shareholder and recorded it at face value that does not comply with IAS 39 Financial Instruments: Recognition and Measurement. In 2011, the Company made a restatement, measuring that financial aid at amortised cost and recognized a fair value adjustment, net of the deferred tax effect, to this financial aid, previously reflected as other current liabilities, in equity, as well as finance costs in the amount of amortization of the fair value adjustments.
- Certain subsidiaries of the Company have placed preferred shares. Previously, the Group did not reflect the debt component of these preferred shares. As a result of restatement, as at 1 January 2010,

the Group recorded a debt component and for the year ended 31 December 2010, additionally recognised a fair value adjustment.

- In 2007, the Group entered into finance lease agreement for production equipment with JSC DBK-Leasing for 10 years. Under this agreement, the Group should make payment of principal and interest in the Tenge, which are indexed to the exchange rate of U.S. dollar at the payment date. The Group assessed that this indexation is an embedded derivative financial instrument that is not directly associated with the host contract of the lease and, therefore, require separate recognition. As a result, as at 1 January 2010 and for the year ended 31 December 2010, the Group recorded a fair value adjustment.
- Taking into consideration the above stated adjustments, the Group also restated deferred taxes as at 1 January and 31 December 2010, and income tax expense for the year ended 31 December 2010.
- The Group also made other reclassifications which affected previously stated amounts of current and non-current assets and liabilities.

In addition, during the preparation of financial statements for the year ended 31 December 2011, management has made some changes to the classification and grouping of comparative information for the previous year to bring it into conformity with the classification and grouping of the financial statements for the current year.

The effect of restatement of comparative information is as follows:

Statement of financial position as at 31 December 2010	As previously reported	Adjustments	Restated	Reclassifi-cations	Reclassified
Non-current assets					
Property, plant and equipment	7,451,427	26,828	7,478,255	167,548	7,645,803
Intangible assets	100,903	-	100,903	57,577	158,480
Investments in associates	1,339,656	(19,290)	1,320,366	(1,320,366)	-
Investments in joint-ventures	212,387	-	212,387	(212,387)	-
Investments in associates and joint-ventures	-	-	-	1,532,753	1,532,753
Other long-term receivables	94,125	-	94,125	(94,125)	-
Other non-current assets	167,548	71,756	239,304	(131,000)	108,304
Deferred tax assets	43,799	35,465	79,264	-	79,264
Total non-current assets	9,415,336	114,759	9,530,095	-	9,530,095
Current assets					
Inventory	6,260,970	(426,676)	5,834,294	-	5,834,294
Other receivables	908,154	(75,665)	832,489	(832,489)	-
Restricted cash	-	-	-	81,844	81,844
Other current assets	-	-	-	847,677	847,677
Cash and cash equivalents	6,550,890	-	6,550,890	(83,644)	6,467,246
Current portion of finance lease receivable	13,388	-	13,388	(13,388)	-
Total current assets	15,283,062	(502,341)	14,780,721	-	14,780,721
TOTAL ASSETS	24,698,398	(387,582)	24,310,816	-	24,310,816
Equity					
Additional paid-in capital	428,612	94,223	522,835	-	522,835
Retained earnings	1,945,965	(89,422)	1,856,543	-	1,856,543
Equity attributable to Parent of the Company	14,476,379	4,801	14,481,180	-	14,481,180
Non-controlling interests	476,860	(18,263)	458,597		458,597
Total equity	14,953,239	(13,462)	14,939,777	-	14,939,777
Non-current liabilities					
Loans	248,096	33,931	282,027	60,697	342,724
Finance lease obligations	461,393	141,160	602,553	-	602,553
Debt component of preferred shares	-	182,338	182,338	-	182,338
Deferred tax liabilities	819,806	(195,390)	624,416	-	624,416
Provisions	25,336	10,725	36,061	(36,061)	-
Other non-current liabilities	1,116,187	(14,222)	1,101,965	(24,636)	1,077,329
Total non-current liabilities	2,670,818	158,542	2,829,360	-	2,829,360

Statement of financial position as at 31 December 2010	As previously reported	Adjustments	Restated	Reclassifi-cations	Reclassified
Current liabilities					
Loans and current portion of long-term loans	1,347,566	3,887	1,351,453	128,824	1,480,277
Current portion of finance lease obligations	198,664	(141,160)	57,504	-	57,504
Financial liability at fair value through profit or loss	-	154,813	154,813	-	154,813
Trade accounts payable	1,419,746	(16,534)	1,403,212	-	1,403,212
Taxes payable	404,964	52,633	457,597	-	457,597
Provisions	33,238	38,831	72,069	(72,069)	-
Other current liabilities	3,598,625	(625,132)	2,973,493	(56,755)	2,916,738
Total current liabilities	7,074,341	(532,662)	6,541,679	-	6,541,679
TOTAL EQUITY AND LIABILITIES	24,698,398	(387,582)	24,310,816	-	24,310,816

Statement of comprehensive income for the year ended 31 December 2010	As previously reported	Adjustments	Restated	Reclassifi-cations	Reclassified
REVENUE	15,423,422	438,607	15,862,029	-	15,862,029
COST OF SALES	(12,704,120)	(420,627)	(13,124,747)	(54,786)	(13,179,533)
GROSS PROFIT	2,719,302	17,980	2,737,282	(54,786)	2,682,496
General and administrative expenses	(2,056,754)	(2,413)	(2,059,167)		(2,059,167)
Selling expenses	(367,038)	-	(367,038)	54,786	(312,252)
Finance costs	(259,322)	(38,261)	(297,583)	-	(297,583)
Profit on financial liabilities at fair value through profit and loss	-	49,051	49,051	-	49,051
Share of profit in associates	403,644	(52,188)	351,456	(351,456)	-
Share of profit in joint ventures	125,051	-	125,051	(125,051)	-
Share of profit in associates and joint ventures	-	-	-	476,507	476,507
Profit before income tax	613,624	(25,831)	587,793	-	587,793
Income tax expense	(234,861)	172,946	(61,915)	-	(61,915)
Net profit and total comprehensive income for the year	378,763	147,115	525,878	-	525,878
Attributable to Parent of the Company	322,347	147,115	469,462	-	469,462
Non-controlling interests	56,416	-	56,416	-	56,416
	378,763	147,115	525,878	-	525,878

Statement of financial position as at 1 January 2010	As previously reported	Adjustments	Restated	Reclassifi-cations	Reclassified
Non-current assets					
Property, plant and equipment	7,592,995	26,828	7,619,823	150,315	7,770,138
Intangible assets	96,329	-	96,329	57,577	153,906
Investments in associates	1,022,926	32,898	1,055,824	(1,055,824)	-
Investments in joint-ventures	75	-	75	(75)	-
Investments in associates and joint-ventures	-	-	-	1,055,899	1,055,899
Other long-term receivables	75,412	-	75,412	(75,412)	-
Other non-current assets	150,315	-	150,315	(119,092)	31,223
Long-term portion of finance lease receivable	13,388	-	13,388	(13,388)	-
Total non-current assets	8,986,359	59,726	9,046,085	-	9,046,085
Current assets					
Other receivables	546,995	-	546,995	(546,995)	-
Other current assets	-	-	-	600,547	600,547
Current portion of finance lease receivable	53,552	-	53,552	(53,552)	-
Total current assets	8,580,043	-	8,580,043	-	8,580,043
TOTAL ASSETS	17,566,402	59,726	17,626,128	-	17,626,128
Equity					
Additional paid-in capital	428,612	94,223	522,835	-	522,835
Retained earnings	1,623,618	(227,778)	1,395,840	-	1,395,840
Equity attributable to Parent of the Company	9,433,824	(133,555)	9,300,269	-	9,300,269
Non-controlling interests	420,444	(18,263)	402,181	-	402,181
Total equity	9,854,268	(151,818)	9,702,450	-	9,702,450
Non-current liabilities					
Loans	173,850	(57,883)	115,967	61,283	177,250
Finance lease obligations	461,544	31,248	492,792	-	492,792
Debt component of preferred shares	-	173,579	173,579	-	173,579
Deferred tax liabilities	879,283	(90,507)	788,776	-	788,776
Other non-current liabilities	114,057	-	114,057	(61,283)	52,774
Total non-current liabilities	1,628,734	56,437	1,685,171	-	1,685,171
Current liabilities					
Loans and current portion of long-term loans	889,523	-	889,523	224,801	1,114,324
Current portion of finance lease obligations	237,272	(31,248)	206,024	-	206,024
Financial liability at fair value through profit or loss	-	203,864	203,864	-	203,864
Trade accounts payable	1,285,637	(16,534)	1,269,103	-	1,269,103
Other current liabilities	3,420,150	(975)	3,419,175	(224,801)	3,194,374
Total current liabilities	6,083,400	155,107	6,238,507	-	6,238,507
TOTAL EQUITY AND LIABILITIES	17,566,402	59,726	17,626,128	-	17,626,128

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in process	Total
Initial or deemed cost:						
At 1 January 2010 (restated)	194,943	4,821,956	4,641,973	391,750	150,315	10,200,937
Purchases	-	71,754	656,143	12,667	17,233	757,797
Internal movement	-	-	(11,574)	11,574	-	-
Disposals	(711)	(29,066)	(163,723)	(7,931)	-	(201,431)
At 31 December 2010 (restated)	194,232	4,864,644	5,122,819	408,060	167,548	10,757,303
Purchases	5,500	125,930	487,441	84,505	14,257	717,633
Disposals	(27,885)	(232,434)	(90,962)	(9,204)	(7,602)	(368,087)
Transfer to non-current assets classified as held for sale	-	(62,044)	(5,006)	-	-	(67,050)
Transfer to investment property	-	(119,463)	-	-	-	(119,463)
At 31 December 2011	171,847	4,576,633	5,514,292	483,361	174,203	10,920,336
Accumulated depreciation and impairment:						
At 1 January 2010 (restated)	-	(862,169)	(1,461,893)	(106,737)	-	(2,430,799)
Depreciation charge for the year	-	(140,845)	(410,747)	(31,898)	-	(583,490)
Impairment charge for the year	-	-	(160,257)	-	-	(160,257)
Disposals	-	348	61,440	1,258	-	63,046
At 31 December 2010 (restated)	-	(1,002,666)	(1,971,457)	(137,377)	-	(3,111,500)
Depreciation charge for the year	-	(122,339)	(451,544)	(45,978)	-	(619,861)
Impairment charge for the year	-	-	(24,925)	-	-	(24,925)
Disposals	-	25,150	38,648	5,855	-	69,653
Transfer to non-current assets classified as held for sale	-	8,110	1,022	-	-	9,132
Transfer to investment property	-	55,949	-	-	-	55,949
At 31 December 2011	-	(1,035,796)	(2,408,256)	(177,500)	-	(3,621,352)
Carrying value:						
At 31 December 2011	171,847	3,540,837	3,106,036	305,861	174,203	7,298,784
At 31 December 2010 (restated)	194,232	3,861,978	3,151,362	270,683	167,548	7,645,803
At 1 January 2010 (restated)	194,943	3,959,787	3,180,080	285,013	150,315	7,770,138

As at 31 December 2011 and 2010 and 1 January 2010, property, plant and equipment with carrying value of 2,449,376 thousand tenge, 2,018,917 thousand tenge and 1,526,254 thousand tenge, respectively, were pledged as collateral for certain loans received by the Group (Note 17).

The cost of fully depreciated property, plant and equipment as at 31 December 2011 and 2010 amounted to 291,135 thousand tenge and 293,282 thousand tenge, respectively.

As at 31 December 2011 and 31 December 2010, the Group has property, plant and equipment with carrying value of 237,168 thousand tenge and 250,816 thousand tenge, respectively, which were retired from active use and have been preserved. Management believes that these property, plant and equipment are not impaired, because the presence of these assets enables the Group to have the necessary licences to perform the principal activities.

7. INVSTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Carrying value at 31 December 2010 (restated)	Acquired/ (received dividends)	Share in profit/(loss)	Carrying value at 31 December 2011
Associates				
JSC ZIKSTO	725,399	(59,757)	179,043	844,685
MBM-Kirovets LLP	341,764	1,221	11,575	354,560
JSC KAMAZ-Engineering	228,427	(5,575)	81,290	304,142
Indra Kazakhstan Engineering LLP	-	124,460	(4,986)	119,474
Kaz-ST Engineering Bastau LLP	17,152	-	(1,605)	15,547
OJSC Ulan	7,624	-	10,185	17,809
KAMAZ-Semei LLP	-	-	-	-
Aviasnab Company LLP	-	-	-	-
Soyuzinvestauto-Kazakhstan LLP	-	-	-	-
Joint-ventures				
Eurocopter Kazakhstan engineering LLP	-	1,150,214	464,812	1,615,026
Thales Kazakhstan Engineering LLP	212,387	-	8,019	220,406
Kazakhstan ASELSAN engineering LLP	-	45,436	(20,806)	24,630
	1,532,753	1,255,999	727,527	3,516,279

Name	Carrying value at 1 January 2010 (restated)	Acquired/ (received dividends)	Share in profit/(loss) (restated)	Carrying value at 31 December 2010 (restated)
Associates				
JSC ZIKSTO	692,799	(86,914)	119,514	725,399
MBM-Kirovets LLP	340,272	-	1,492	341,764
JSC KAMAZ-Engineering	-	-	228,427	228,427
Indra Kazakhstan Engineering LLP	-	-	-	-
Kaz-ST Engineering Bastau LLP	15,130	-	2,022	17,152
OJSC Ulan	7,623	-	1	7,624
KAMAZ-Semei LLP	-	-	-	-
Aviasnab Company LLP	-	-	-	-
Soyuzinvestauto-Kazakhstan LLP	-	-	-	-
Joint ventures				
Eurocopter Kazakhstan engineering LLP	-	-	-	-
Thales Kazakhstan Engineering LLP	75	87,261	125,051	212,387
Kazakhstan ASELSAN engineering LLP	-	-	-	-
	1,055,899	347	476,507	1,532,753

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

Name	Principal activity	31 December 2011	31 December 2010	1 January 2010
		Ownership, %	Ownership, %	Ownership %
Associates				
JSC ZIKSTO	Repair of freight rail cars, repair of wheel sets with replacement of elements	42%	42%	42%
Kaz-ST Engineering Bastau LLP	Investment holding activity and provision of defense, engineering services	49%	49%	49%
KAMAZ-Semei LLP	Commercial activity	49%	49%	49%
JSC KAMAZ-Engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	25%	24%	24%
Indra Kazakhstan Engineering LLP	Manufacture of radar systems, systems of electronic warfare and intelligence	49%	-	-
Aviasnab Company LLP	Commercial activity	-	49%	49%
Soyuzinvestauto-Kazakhstan LLP	Commercial activity	-	49%	49%
Joint ventures				
Thales Kazakhstan Engineering LLP	Development, manufacture and sale of electronic equipment, systems, software and provision of related services; manufacture, sale and technical maintenance of radio and communication equipment	50%	50%	50%
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	50%	-	-
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	50%	-	-

According to the foundation agreement dated 3 June 2011, the Company (49%) and Indra Sistemas CA (51%) established Indra Kazakhstan Engineering LLP.

According to the foundation agreement dated 18 April 2011, the Company jointly with ASELSAN Elektronik Sanayi ve Ticaret A.S. (49%) and T.C. Ministry of National Defense, Undersecretariat for Defense Industries of Turkey (1%) established a joint venture, Kazakhstan ASELSAN Engineering LLP.

According to the foundation agreement dated 16 February 2011, the Company jointly with Eurocopter Company (50%) established Eurocopter Kazakhstan engineering LLP.

During 2011, the Company purchased 1% of shares in JSC KAMAZ Engineering for 11,470 thousand tenge.

During 2011, the Company issued interest-free financial aid to joint ventures and recognised a fair value adjustment of 13,311 thousand tenge net of deferred tax of 2,661 thousand tenge in investments.

8. OTHER NON-CURRENT ASSETS

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Advances for property, plant and equipment	240,249	24,724	-
Long-term portion of finance lease receivable	2,788	2,788	16,176
Inventories held for capital repaid and construction of non-current assets	69,545	47,032	-
Loans given to employees	22,979	13,374	14,048
Accrued revenue	-	20,351	-
Other non-current receivables	6,691	35	999
	342,252	108,304	31,223

In October 2011, the Group entered into a finance lease agreement for equipment with JSC DBK-Leasing in the amount of 1,492,344 thousand tenge. Delivery of the equipment will be carried out in 2012. In accordance with this agreement, the Group has made an advance payment in the amount of 223,852 thousand tenge.

9. INVENTORY

	31 December 2011	31 December 2010 (restated)	1 January 2010
Wor-in-progress	3,305,142	2,181,718	2,790,528
Raw materials	2,266,930	1,593,299	1,558,603
Finished goods	2,142,640	1,853,541	1,524,263
Goods for resale	490,156	417,416	363,852
Other	357,343	109,862	3,500
Less: allowance for obsolete inventories	(364,247)	(321,542)	(408,072)
	8,197,964	5,834,294	5,832,674

Movement in allowance for obsolete inventories for the years ended 31 December 2011 and 2010 is presented as follows:

	2011	2010 (restated)
Allowance for obsolete inventories at the beginning of the period	(321,542)	(408,072)
(Accrued)/recovered during the period	(56,078)	21,879
Written-off agains previously created allowance	13,373	64,651
Allowance for obsolete inventories at the end of the period	(364,247)	(321,542)

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2011	31 December 2010	1 January 2010
Trade receivables from third parties	579,638	510,321	309,055
Trade receivables from related parties	623,836	725,399	722,146
Less: allowance for doubtful debts	(44,132)	(36,318)	(54,829)
	1,159,342	1,199,402	976,372

Movement in allowance for doubtful debts for the years ended 31 December 2011 and 2010 is presented as follows:

	2011	2010
Allowance for doubtful debts at the beginning of the year	(36,318)	(54,829)
(Accrued)/recovered during the year	(8,171)	18,511
Written-off agains previously created allowance	357	-
Allowance for doubtful debts at the end of the year	(44,132)	(36,318)

As at 31 December 2011 and 2010, trade accounts receivable net of allowace for doubtful debts are denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
Tenge	1,158,227	1,182,924	976,372
US dollars	827	15,317	-
Russian roubles	288	1,161	-
	1,159,342	1,199,402	976,372

11. VALUE ADDED TAX AND OTHER TAXES RECOVERABLE

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Value added tax	545,457	250,667	192,637
Other taxes recoverable	12,101	9,515	14,255
	557,558	260,182	206,892

12. OTHER CURRENT ASSETS

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Short-term advance given to third parties	1,699,598	346,229	351,169
Short-term advance given to related parties	12,984	14,767	31,779
Prepaid expenses	34,458	11,964	52,711
Receivable from employees	17,893	11,496	12,047
Current-portion of non-interest bearing loan receivable	44,582	50,000	-
Guarantees for contracts execution	284,562	10,230	-
Other receivable from third parties	183,072	457,610	99,289
Current portion of finance lease receivable	12,893	13,388	53,552
Short-term investments	1,800	1,800	-
Less: allowance for doubtful debts	(23,332)	(69,807)	-
	2,268,510	847,677	600,547

Movement in allowance for doubtful debts for the years ended 31 December 2011 and 2010 is presented as follows:

	2011	2010
Allowance for doubtful debts at the beginning of the year	(69,807)	-
Recovered/(accrued) during the year	46,475	(69,807)
Allowance for doubtful debts at the end of the year	(23,332)	(69,807)

As at 31 December 2011 and 2010 and 1 January 2010, other current assets are denominated in tenge.

13. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010 (restated)	1 January 2010
Cash on bank accounts in tenge	3,350,186	4,785,787	556,960
Short-term deposits	81,005	1,624,574	159,645
Petty cash in tenge	31,593	12,116	24,438
Cash on bank accounts in foreign currencies	15,797	44,335	7,674
Cash on special bank accounts in tenge	5,089	43	2,951
Cash in transit	2,004	391	-
	3,485,674	6,467,246	751,668

As at 31 December 2011 and 2010, short-term deposits are deposits in tenge at JSC Tsesna Bank, JSC BTA Bank with an original maturity of 1-3 months and the interest rate of 4%-5% per annum.

As at 31 December 2011 and 2010, future cash inflows of 1,227,290 thousand tenge and 44,263 thousand tenge, respectively, were pledged as collateral for the loans received by the Group (Note 17).

Cash and cash equivalents are denominated in the following currencies:

	31 December 2011	31 December 2010 (restated)	1 January 2010
Tenge	3,469,877	6,422,911	743,994
US dollars	-	2,952	7,674
Euro	445	-	-
Russian roubles	15,352	41,383	-
	3,485,674	6,467,246	751,668

14. CHARTER CAPITAL

As at 31 December 2011 and 2010, authorized, issued and fully paid charter capital of the Company consists of common shares of 12,101,802 shares with par value of 1,000 tenge, each. (1 January 2010: 7,381,594 shares with par value of 1,000 tenge).

During 2010, the charter capital of the Company was formed by cash of 4,500,000 thousand tenge and assets of 220,208 thousand tenge.

As at 31 December 2011, 100% of Company's shares belong to JSC SFW Samruk-Kazyna (31 December 2010: 60.99% - JSC SWF Samruk-Kazyna, 39.01% - PA Committee on State Properties and Privatisation of the Ministry of Finance of the Republic of Kazakhstan).

In 2011, the Company declared dividends to shareholders of the Company for 2007-2008 being paid: 50 million tenge in 2012 and 66 million tenge in 2013.

15. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2011 and 2010 and 1 January 2010, additional paid-in capital of 428,612 thousand tenge represented a difference between the value of shares paid by PA Committee on State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan as a contribution to the charter capital and the value of registered charter capital of the Company.

Also, as at 31 December 2011 and 2010 and 1 January 2010, additional paid-in capital of 94,223 thousand tenge represents a fair value adjustment of interest-free financial aid received from the Shareholder, net of deferred taxes effect (Note 17).

16. NON-CONTROLLING INTERESTS

	2011	2010 (restated)
At 1 January	458,597	402,181
Non-controlling interests in net profit for the current year	114,577	56,416
At 31 December	573,174	458,597

17. LOANS

	Maturity	Interest rates	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Secured loans					
JSC Halyk Bank (a)	-	14%-16%	876,922	235,606	-
JSC BTA Bank (b)	January 2015	8.63% - 12.54%	830,993	-	-
JSC Temir Bank (c)	7 April 2013	14%	728,807	-	
JSC BTA Bank (d)	-	8% - 12%	292,336	263,734	174,517
JSC Eurasian Bank (e)	-	13%	102,576	100,970	78,752
JSC SB Alfa-Bank (f)	27 May 2011	17%	-	441,883	428,246
JSC Development Bank of Kazakhstan (g)	October 2011	10.45%	-	255,880	-
JSC Halyk Bank (h)	September 2011	18.5%	-	212,233	342,233
JSC Tsesna Bank (i)	2011	20%	-	70,000	-
			2,831,634	1,580,306	1,023,748
Non-secured loans					
JSC SWF Samruk-Kazyna (j)			150,045	250,045	250,045
Less: fair value adjustment			(22,218)	(52,220)	(81,439)
JSC BTA Bank	June 2012	13%	20,000	-	-
Other loans			-	44,870	99,220
			147,827	242,695	267,826
			2,979,461	1,823,001	1,291,574
Short-term loans and current portion of long-term loans			2,440,297	1,480,277	1,114,324
Long-term loans			539,164	342,724	177,250
			2,979,461	1,823,001	1,291,574

(a) JSC Halyk Bank

On 24 February 2010, the Group entered into a credit line agreement No.3 in JSC Halyk Bank to replenish working capital of 300,000 thousand tenge with the interest rates of 14% to 16% depending on maturity, with the period of availability of loan funds until 24 February 2013. Condition of principal repayments and interest rate contracts are defined in the accessory agreements. According to addendum agrement dated 23 February 2011, the total amount of the credit line was increased to 600,000 thousand tenge, then according to addendum agreement dated 22 April 2011, the total amount of the credit line was increased to 900,000 thousand tenge.

Also, on 13 October 2010, the Group entered into a credit line agreement No.22 in JSC Halyk Bank for investment in long-term assets of the Company of 80,974 thousand tenge for a period up to 13 October 2015 with the interest rate of 14%.

Part of the interest on these loans at a rate of 7% are subsidized by the JSC Entrepreneurship Development Fund Damu as part of the state program Road Map 2020. Subsidy contracts have been concluded up to the expiry of the loan contracts. These loans are measured at fair value on the date of signing of the subsidy contracts (22 October 2010). As at 31 December 2011, the Group recognized a fair value adjustment to the loans of 13,717 thousand tenge and recorded as a deferred income (31 December 2010: 10,432 thousand tenge) (Notes 19 and 22).

As at 31 December 2011, the property complex and equipment with a carrying value of 356,056 thousand tenge (31 December 2010: 337,707 thousand tenge) (Note 6), as well as the right to claim cash received in the future of 1,172,214 thousand tenge (31 December 2010: KZT 0) (Note 13) were pledged as collateral for the above loans.

(b) JSC BTA Bank

On 17 August 2011, the Group signed a general agreement with JSC BTA Bank with tranches maturities up to 18 months with the credit limit of 850,000 thousand tenge, with the final settlement date in January 2015. Out of the total credit limit amount, 750,000 thousand tenge are financed by JSC Entrepreneurship Development Fund Damu. The Group pledged as collateral property, plant and equipment with the carrying value of 840,718 thousand tenge for the loan (Note 6).

(c) JSC Temir Bank

In 2011, the Company entered into a general bank loan agreement with JSC Temir Bank of 900,000 thousand tenge with a maturity of up to 7 April 2013 and the interest rate of 14%. Interests on the loan are paid monthly.

As at 31 December 2011, a set of production and administrative buildings and land with a carrying value of 416,554 thousand tenge served as collateral for the loan (Note 6).

(d) JSC BTA Bank

On 25 May 2010 and 31 May 2010 the Group entered into bank loans agreements with JSC BTA Bank for investment in long-term assets of the Group totaling 264,475 thousand tenge, for a period up to 31 May 2015 and the interest rate of 8% per annum. Interest on loans paid monthly.

Part of the interest on these loans at a rate of 7% are subsidized by the JSC Entrepreneurship Development Fund Damu as part of the state program Road Map 2020. Subsidy contracts have been concluded up to the expiry of the loan contracts. These loans are measured at fair value on the date of signing of the subsidy contracts (19 January 2011). As at 31 December 2011, the Group recognized a fair value adjustment to the loans of 20,437 thousand tenge and recorded as a deferred income (Notes 19 and 22), which will be recognised in profit and loss on a systematic basis over the period of the loan agreement. In 2011, the Group recognised amortization of the fair value adjustment of 11,868 thousand tenge (2010: nil tenge).

On 18 December 2011, the Group entered into bank loan agreement with JSC BTA Bank for investment in long-term assets of the Group of 91,198 thousand tenge, with a maturity of up to 18 September 2016 and the interest rate of 12.25% per annum. Interest on loans paid monthly.

As at 31 December 2011, property complex and equipment with a carrying value of 670,726 thousand tenge (31 December 2010: 522,211 thousand tenge, 1 January 2010: 152,876 thousand tenge), were pledged as collateral for the above loans (Note 6).

(e) JSC Eurasian Bank

In 2010-2011, the Group entered into loan agreements with JSC Eurasian Bank. As at 31 December 2011, current portion of the loans amounted to 102,576 thousand tenge (31 December 2010: 100,970 thousand tenge). The interest rate on these loans ranged from 13% to 14.25%. As at 31 December 2011, property, plant and equipment with a carrying value of 165,322 thousand tenge were pledged as collateral for these loans (31 December 2010: 170,834 thousand tenge, 1 January 2010: 166,498 thousand tenge) (Note 6).

As at 31 December 2011 and 2010, future cash inflows from trade receivables of 55,076 thousand tenge and 44,263 thousand tenge, respectively, were pledged as collateral for these loans (Note 13).

(f) JSC SB Alfa-Bank

During 2011, the Group fully repaid the loan from JSC SB Alfa-Bank, obtained in September 2008 for working capital replenishment. Carrying value of collateral assets at 1 January 2010 amounted to 221,689 thousand tenge.

(g) JSC Development Bank of Kazakhstan

In April 2010, the Group entered into a loan agreement with JSC Development Bank of Kazakhstan of 1,700 thousand US dollars. In October 2011, the loan was fully repaid.

(h) JSC Halyk Bank

In 2008, the Group entered into loan agreements with JSC Halyk Bank of 458,000 thousand tenge. In September 2011, the loans were fully repaid. The Group pledged as collateral for these loans, property, plant and equipment with a carrying value of 855,604 thousand tenge as at 31 December 2010 (1 January 2010: 647,435 thousand tenge) (Note 6).

(i) JSC Tsesna Bank

In December 2010, the Group entered into a loan agreement with JSC Tsesna Bank of 70,000 thousand tenge. In June 2011, the loan was fully repaid. The Group pledged as collateral for this loan, property, plant and equipment with a carrying value of 132,561 thousand tenge as at 31 December 2010 (Note 6).

(j) JSC SWF Samruk-Kazyna

During 2008, the Company received an interest-free loan from the Parent company for business development of 250,045 thousand tenge. The Company measured the fair value of these loans using the effective interest rate of 16.1%, and recognised a fair value adjustment of 117,779 thousand tenge, net of tax effect of 23,556 thousand tenge as additional paid-in capital in the statement of changes in equity. For the years ended 31 December 2011 and 2010, amortisation of discount of 30,002 thousand tenge and 29,219 thousand tenge, respectively, was recognized as interest expense (Note 28).

As at 31 December 2011 all loans are denominated in tenge.

Loans repayment is made in the following terms:

	31 December 2011	**31 December 2010 (restated)**	**1 January 2010 (restated)**
Within one year	2,440,297	1,480,277	1,114,324
Within second year	383,288	155,167	108,644
Within third year	101,095	115,266	68,606
In subsequent years	54,781	72,291	-
	2,979,461	1,823,001	1,291,574

18. FINANCE LEASE OBLIGATIONS

	Minimum lease payments			Present value of minimum lease payments		
	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Less than one year	162,787	60,502	237,272	152,792	57,504	206,024
From 1 to 5 years	605,497	765,208	571,639	479,222	602,553	492,792
More than 5 years	-	-	-	-	-	-
	768,284	825,710	808,911	632,014	660,057	698,816
Less future finance costs	(136,270)	(165,653)	(110,095)	-	-	-
	632,014	660,057	698,816	632,014	660,057	698,816
Recognised in:						
- current liabilities				152,792	57,504	206,024
- non-current liabilities				479,222	602,553	492,792
				632,014	660,057	698,816

In April 2007, the Group entered into finance lease agreement for production equipment with JSC DBK-Leasing for 10 years at an interest rate of 8%. The collateral for this agreement is obtained equipment.

Under this agreement the Group should make payment of principal and interest in the tenge, which are indexed to the exchange rate of US dollar at the payment date. The Group believes that this indexation is an embedded derivative that is not directly related to the host contract of the lease and, therefore, requires separate recognition. To determine the fair value of embedded derivative financial instruments the Group uses assessment methods that are widely used in the market and which require the use of market data. As at 31 December 2011, an embedded derivative amounted to 183,230 thousand tenge (31 December 2010: 154,813 thousand tenge, 1 January 2010: 203,864 thousand tenge). For the year ended 31 December 2011, the Group recognized a fair value adjustment of 28,417 thousand tenge to the embedded derivative as loss (2010: 49,051 thousand tenge as gain).

Finance lease obligations denominated in tenge.

19. OTHER NON-CURRENT LIABILITIES

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Long-term advances received	717,400	1,000,000	-
Dividends payable	66,000	-	-
Other long-term payables to third parties	2,745	31,374	25,417
Deferred income – government subsidies	21,757	6,129	-
Other deferred income	3,451	-	-
Резервы	54,956	39,826	27,357
	866,309	1,077,329	52,774

Other non-current liabilities are denominated in tenge.

20. TRADE ACCOUNTS PAYABLE

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Accounts payable to suppliers and contractors	668,188	1,318,053	1,266,418
Accounts payable to related parties	51,743	85,159	2,685
	719,931	1,403,212	1,269,103

Trade accounts payable are donomiated in the following currencies:

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Tenge	649,408	1,334,067	1,269,103
US dollars	69,110	69,145	-
Russian roubles	1,413	-	-
	719,931	1,403,212	1,269,103

21. OTHER TAXES PAYABLE

	31 December 2011	31 December 2010 (restated)	1 January 2010
VAT	713,924	246,746	98,509
Pension and social contributions	129,086	99,282	48,656
Personal income tax	90,055	61,369	35,770
Social tax	60,850	37,089	18,609
Other taxes	30,500	13,111	4,464
	1,024,415	457,597	206,008

22. OTHER CURRENT LIABILITIES

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Advances received from third parties	1,731,641	2,085,286	2,422,701
Advances received from related parties	142,732	358,825	178,634
Provisions	774,791	144,732	121,490
Dividends payable	137,728	8,396	-
Salary payable	128,513	289,546	183,870
Deferred income – government subsidies	12,397	4,303	-
Other deferred income	240	6,266	28,973
Other payables	5,613	19,384	258,706
	2,933,655	2,916,738	3,194,374

As at 31 December 2011 provisions include accruals for services of 392,792 thousand tenge, provision for unused vacation and other employee benefits of 263,814 thousand tenge, provision for warranty services of 117,448 thousand tenge and other reserves (31 December 2010: nil tenge, 118,391 thousand tenge and 18,748 thousand tenge, respectively; 1 January 2010: nil tenge, 121,490 thousand tenge, nil and nil tenge, respectively).

Other current liabilities are denominated in tenge.

23. REVENUE

	2011	2010 (restated)
Revenue from finished goods sale	28,964,924	13,982,022
Revenue from rendering services	4,655,063	1,876,363
Other	3,207	3,644
	33,623,194	15,862,029

24. COST OF SALES

	2011	2010 (restated)
Raw materials	22,275,560	8,706,628
Payroll and related taxes	3,623,141	2,673,416
Subcontractors' services	2,208,973	426,415
Depreciation and amortisation	519,858	451,360
Utilities	409,198	292,905
Repair and maintenance	177,626	80,679
Other	420,890	268,598
	29,635,246	12,900,001
Work-in-progress, at the beginning of the year	2,181,718	2,790,528
Work-in-progress, at the end of the year	3,305,142	2,181,718
Change in work-in-progress	(1,123,424)	608,810
Finished goods at the beginning of the year	1,853,541	1,524,263
Finished goods at the end of the year	2,142,640	1,853,541
Change in finished goods	(289,099)	(329,278)
	28,222,723	13,179,533

25. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010 (restated)
Payroll and related taxes	1,372,912	994,307
Taxes	217,931	159,787
Professional services	164,606	91,838
Fines and penalties	155,041	105,596
Depreciation and amortisation	111,610	134,395
Business trips and representative expenses	107,224	77,028
Accrual of provision for employees remuneration	69,000	-
Utilities	63,810	39,497
Bank commissions	60,402	39,976
Repair and maintenance	59,906	64,468
Rent expenses	58,473	17,146
Accrual of provision for unused vacation	56,327	491
Accrual of allowance for obsolete inventories (Note 9)	56,078	(21,879)
Communication	30,963	24,688
Materials	27,848	18,900
Transportation	25,797	37,623
Education of personnel	18,586	12,464
Charity and sponsorship	12,502	7,726
Security	12,121	30,943
(Recovery)/accrual of allowance for doubtful debts (Notes 10 и 11)	(38,304)	51,296
Other	212,825	172,877
	2,855,658	2,059,167

26. SELLING EXPENSES

	2011	2010 (restated)
Transportation	200,234	73,190
Payroll and related taxes	112,957	81,516
Integration expenses	103,075	-
VAT non-recoverable	61,275	62,128
Business trips	51,947	32,875
Advertising and marketing	14,241	18,336
Depreciation and amortization	13,392	12,416
Utilities	2,609	-
Other	80,754	31,791
	640,484	312,252

27. OTHER PROFIT AND LOSSES

	2011	2010
Gain/(loss) from disposal of property, plant and equipment	393,664	(23,804)
Income from inventory sale	152,845	75,975
Rent income	47,969	11,548
Loss from impairment of property, plant and equipment	(24,925)	(160,257)
Other (losses)/profits	(67,023)	138,475
	502,530	41,937

28. FINANCE COSTS

	2011	2010 (restated)
Interest on loans	280,462	199,142
Interest of finance lease	68,540	60,180
Amortisation of fair value adjustment	30,002	29,219
Dividends on preferred shares	10,854	9,042
	389,858	297,583

29. TAXATION

	2011	2010 (restated)
Current income tax expense	524,519	269,663
Adjustment of current income tax for prior years	92,194	6,448
Deferred tax benefit	(34,784)	(214,196)
Income tax expense	581,929	61,915

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2011 and 2010:

	At 1 January 2011	Recognised in profit and loss	At 31 December 2011
Property, plant and equipment	(850,984)	(26,299)	(877,283)
Trade accounts receivable	7,264	1,562	8,826
Inventory	64,308	8,541	72,849
Provisions	36,562	129,387	165,949
Taxes payable	10,040	8,230	18,270
Financial liabilities at fair value through profit and loss	30,963	5,683	36,646
Tax losses carried forward	156,695	(92,320)	64,375
	(545,152)	34,784	(510,368)

	At 1 January 2010	Recognised in profit and loss	At 31 December 2010
Property, plant and equipment	(954,198)	103,214	(850,984)
Trade accounts receivable	10,966	(3,702)	7,264
Inventory	81,614	(17,306)	64,308
Provisions	-	36,562	36,562
Taxes payable	14,346	(4,306)	10,040
Financial liabilities at fair value through profit and loss	40,773	(9,810)	30,963
Tax losses carried forward	47,151	109,544	156,695
	(759,348)	214,196	(545,152)

The reconciliation between expected income tax expense at 20% income tax rate in financial statements and tax accounting is presented below:

	2011	2010 (restated)
Profit before income tax	2,846,016	587,793
Theoretical income tax at official tax rate of 20%	569,203	117,559
Tax effect of permanent differences	(79,468)	(62,092)
Adjustment of current income tax for prior years	92,194	6,448
	581,929	61,915

In November 2010, the Tax Code of the Republic of Kazakhstan was amended regarding the income tax rate. According to these amendments from 1 January 2011 the income tax rate remains at 20% with no reductions in subsequent years.

30. CONTINGENT LIABILITIES

Taxation and regulatory environment

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

Legal matters

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

Environmental matters

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

Insurance

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2011.

Market limitation

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

Capital commitments

The Group has number of commitments for acquisition of property, plant and equipment of 89,052 thousand tenge and 476,434 thousand tenge, respectively, as at 31 December 2011 и 2010.

31. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMNET POLICIES

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

Capital adequacy management

The Group manages its capital adequacy, to ensure that the Group will continue to work as a going concern while maximizing profits for the Shareholder through the optimization of the balance of debt and equity. Structure of the Group's equity includes charter capital, additional paid-in capital and retained earnings.

Significant accounting policies

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

Financial risk management objectives

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

Interest rate risk

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

Currency risk

The amounts of short-and long-term liabilities of the Group denominated in foreign currencies are presented in tenge in the consolidated financial statements. As a result of exchange rate of the tenge against the foreign currency gain or loss arises from exchange rate differences. Foreign currency risk is not significant for the Group as financial assets and liabilities are mainly denominated in tenge.

Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is the sum of its trade receivables (Note 10) and other current assets (Note 12), 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 fulfill its obligations.

The maximum exposure to credit risk for trade receivables at the reporting date, and by geographic regions was as follows:

	31 December 2011	31 December 2010
Within the country	1,158,227	1,182,924
Outside the country	1,115	16,478

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

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

As at 31 December 2011 and 2010, distribution of trade receivables by ageing was as follows:

	31 December, 2011	31 December, 2010
Not overdue	599,927	696,729
Overdue by 3-6 months	487,744	475,745
Overdue by 6-12 months	71,671	26,928
Overdue by more than 12 months	44,132	36,318
	1,203,474	1,235,720

Market risk

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

Liquidity risk

The Group monitors the liquidity risk of short-term, medium-and long-term financing in accordance with the requirements of the Shareholder. The Group manages liquidity risk by maintaining adequate reserves, bank loans and available credit lines by continuously monitoring forecast and actual cash flows and comparing the maturity of financial assets and liabilities.

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

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2011						
Non-interest bearing:						
Trade accounts payable	-	719,931	-	-	-	719,931
Other liabilities	-	134,126	137,728	68,745	-	340,599
Interest bearing:						
Loans	8%-14%	1,527,130	1,101,142	573,745	-	3,202,017
Finance lease	8%	81,394	81,394	605,496	-	768,284

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
2010 (restated)						
Non-interest bearing:						
Trade accounts payable	-	1,403,212	-	-	-	1,403,212
Other liabilities	-	308,930	8,396	31,374	-	348,700
Interest bearing:						
Loans	8%-20%	937,178	646,917	394,944	-	1,979,039
Finance lease	8%	30,251	30,251	765,208	-	825,710

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

	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
2011						
Interest bearing:						
Short-term deposits	4%-5%	81,005	-	-	-	81,005
Restricted cash	-	82,391	-	-	-	82,391
Finance lease receivables	-	12,893	2,788	-	-	15,681
Non-interest bearing:						
Cash and cash equivalents	-	3,404,669	-	-	-	3,404,669
Trade accounts receivable	-	1,159,342	-	-	44,132	1,203,474
Other assets	-	514,016	29,670	-	18,347	562,033
2010 (restated)						
Процентные:						
Short-term deposits	4%-5%	1,624,574	-	-	-	1,624,574
Restricted cash	-	81,844	-	-	-	81,844
Finance lease receivables	-	13,388	2,788	-	-	16,176
Беспроцентные:						
Cash and cash equivalents	-	4,842,672	-	-	-	4,842,672
Trade accounts receivable	-	1,199,402	-	-	36,318	1,235,720
Other assets	-	449,833	33,760	-	69,807	553,400

Fair value of financial instruments

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

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

Cash and cash equivalents

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

Trade and other accounts receivable and payable

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

Loans

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

As at 31 December 2011 and 2010, fair value of financial assets and financial liabilities did not differ significantly from their carrying value.

32. RELATED PARTY TRANSACTIONS

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

Transactions with related parties undertaken by the Group for the years ended 31 December 2011 and 2010, were mainly conducted in the ordinary course of business and on arm's-length terms equivalent to those that prevail in transactions between independent parties.

Receivables from related parties as at 31 December 2011 and 2010 are as follows:

	2011	2010
JSC NC Kazakhstan Temir Zholy	398,909	375,846
JSC NC KazMunaiGas	224,657	245,506
LLP Repair Corporation Kamkor	-	104,047
Other	270	-
	623,836	725,399

Accounts payable to related parties as at 31 December 2011 and 2010 is as follows:

	2011	2010
JSC NC Kazakhstan Temir Zholy	28,404	28,228
JSC NC KazMunaiGas	-	42,789
JSC Samruk Energy	21,286	2,700
Other	2,053	11,442
	51,743	85,159

As at 31 December 2011 and 2010, advances given to related parties are as follows:

	2011	2010
JSC Development Bank of Kazakhstan (Note 8)	223,852	-
JSC NC KazMunaiGas	10,910	10,223
Other	2,074	4,544
	236,836	14,767

As at 31 December 2011 and 2010, advances received from related parties are as follows:

	2011	2010
JSC NC Kazakhstan Temir Zholy	97,795	-
JSC NC KazMunaiGas	44,937	117,422
Ministries and agencies	-	241,403
	142,732	358,825

Revenues from sales to related parties for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Ministries and agencies	17,925,532	4,472,856
JSC NC KazMunaiGas	3,450,671	3,332,878
JSC NC Kazakhstan Temir Zholy	3,989,016	2,741,634
JSC NAC Kazatomprom	801,118	27,439
JSC Kazpost	50,000	511
LLP Repair Corporation Kamkor	-	183,143
Other	4,119	34,546
	26,220,456	10,793,007

Expenses from services rendered and goods acquired from related parties for the years ended 31 December 2011 and 2010 are as follows:

	2011	2010
JSC NC KazMunaiGas	16,410	22,618
JSC NC Kazakhstan Temir Zholy	213,952	177,115
JSC Samruk Energy	53,901	63,305
JSC Kazakhtelecom	5,582	36,732
LLP Repair Corporation Kamkor	-	134,773
Other	1,014	33,828
	290,859	468,371

For the years ended 31 December 2011 and 2010, compensation to key management personnel amounted to 134,735 thousand tenge and 66,758 thousand tenge, respectively.

33. EVENTS AFTER THE REPORTING DATE

On 15 February 2012, the Company received a loan from the Parent company of 5,000,000 thousand tenge at an interest rate of 3% per annum for up to 30 December 2013 on the establishment of a center for the production of electron-optical instruments on the territory of the Republic of Kazakhstan and to establish their own production modernization, engineering and maintenance and repair of armored vehicles for military purposes on the basis of the subsidiary

Subsequent to reporting date, the Group has received an advance from the Ministry of Defence of the Republic of Kazakhstan and the Ministry of Emergency Situations of the Republic of Kazakhstan in the amount of 14,497,178 thousand tenge for the supply of goods and services and provided advances to Eurocopter Kazakhstan Engineering LLP of 12,914,953 thousand tenge for the supply of helicopters.

Group repaid loans from JSC BTA Bank in advance of 420 million tenge.

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