



# “NC “Kazakhstan Engineering” JSC

The annual report  
for 2014



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## MESSAGE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



**SAURANBAYEV**  
Nurlan Ermekeovich

Chairman of the Board of Directors



The Company is a holding structure providing integrated financial, production and process policy in branches of defense products, parapublic goods production and civil mechanic engineering.

Sole shareholder of "NC "Kazakhstan Engineering" JSC is "Samruk- Kazyna" JSC, 100% shares of it is owned by the Government of the Republic of Kazakhstan, moreover since 2010 the Company is beneficial ownership of the Ministry of Defense of the Republic of Kazakhstan.

In accordance with the strategy «Kazakhstan-2050» Kazakhstan should strengthen its defense capabilities and military doctrine, participate in the various mechanisms of defensive containment.

With regard to this the Company shall solve issues on timely and qualitative implementation of state defense order, assistance in technical and technological modernization of Armed Forces of the Republic of Kazakhstan, other forces and military formations, development of national engineering,



- 2014, assistance in increase of Kazakh content share in production of goods, works and services, training of qualified engineering and technical personnel able to work under modern conditions.

The Company Strategy Development for 2013 - 2022 was put in action, it was developed in accordance with the message of the President of the Republic of Kazakhstan "Strategy "Kazakhstan - 2050": New Political Course of Successful State". The Company Strategy Development determines strategic objectives and tasks for decennial. This work shall be built on the principles of introduction of the best standards of corporate management, maximization of long-term cost of managed assets, increase of their competitiveness in world markets and with due regard to the priorities of state policy in military technical, industrially innovative, socially economic and other fields of activities of the Ministry of Defense of the Republic of Kazakhstan and "Samruk-Kazyna" JSC.

For implementation of these objectives from Republican budget there was made Company capitalization for KZT 9 375 billion in April 2014.

According to official data, the share of the Company in the Republic of Kazakhstan engineering section (the group of companies) in 2014 stood at 8.8% level.

The Company, its subsidiary and affiliated organization make significant contributions into social and economic modernization of the country. Along with the development of proper production, military enterprises make great contributions into the development of regions, giving workplaces and paying taxes into the local budget.

The Company actively participates in the development of international military and technical cooperation inviting foreign specialists to train national employees.

Therefore aiming to develop export potential, the Company promoted its advertising and exhibition activities. So the Company enterprises attend International Exhibition KADEX (Kazakhstan Defense Exhibition) under the auspices of RoK Ministry of Defense. Following the exhibition KADEX-2014 there were signed long-term memoranda until 2020.

Alongside with that Company Corporate Management is one of the principal non-financial factors of competitiveness increase which assists in perception level increase of the Company by shareholders and investors, its market value and reduction of loan capital cost. The Company has recently made a significant work on improvement of corporate management practice.

Taking into account that our main goal is social security and welfare of our people The Company has joined the Global Agreement initiated by the UN, appealing business communities in their activities to be guided by fundamental principles of human rights, labor standards and environmental protection.

In a whole, activity of "NC "Kazakhstan Engineering" JSC has a positive dynamics and great opportunities for further growth.



## MESSAGE OF THE CHAIRMAN OF THE MANAGEMENT BOARD



**IDRISOV**  
**Yerlan Sapargalievich**  
Chairman of the Management Board



As of 2014 in group of the Company there are 15 affiliated and 12 dependent enterprises of machine-building and military-industrial branch.

The main activities of the group of the Company are mechanical engineering, production and defense products service, engineering, output and rendering services in oil and gas, railway, agro-industrial and fuel-energy complexes.

Increasing steadily the industrial, technical and financial capacity of the enterprises entering it, "NC "Kazakhstan Engineering" JSC provides employment about 6 thousand people, 250 of them are engineers working in 11 design departments and 9 specialized laboratories.

Today's results largely achieved due to the support of the Head of the state N. Nazarbayev, the Government, «Samruk-Kazyna» JSC and RoK Ministry of Defense.

of leader positions in branches of mechanical engineering which have to play a role of engines of the accelerated diversification of branch, and also have to be capable to make the worthy competition of the near and far abroad to the similar companies.

The Company is actively working on cooperation with foreign companies for further creating of joint ventures in the territory of Kazakhstan.

Nowadays several joint ventures have been arranged with leading international companies such as: Turkish company "Aselsan" manufacturing electronic devices of night vision, the Franco-German company "Airbus Helicopters" that is a leading manufacturer of helicopters.

In addition to that, the Company expects to implement the project on production of armored vehicles, together with the South African "Paramount Group" company.

It should be noted that a joint venture with "Airbus Helicopters" ("Eurocopter Kazakhstan Engineering" LLP) created in 2011 delivered the 25th anniversary helicopter EC-145 on December 3, 2014.

In conclusion I would like to note that our goal is the increasing of the economic strength of the country, create a strong economic potential, which would be able to provide Kazakhstan's sovereignty and respect of our partners.





# ANALYSIS OF MECHANICAL ENGINEERING INDUSTRY OF KAZAKHSTAN





## Analysis of Mechanical Engineering Sector of Kazakhstan

### Dynamics of manufacture in mechanical engineering

The volume of mechanical engineering manufacture increased in nominal terms in 2014 compared to 2008 by 2.9 times (from 301,4 billion tenge to 869,9 billion tenge, by 2.8 times). In 2014 compared with 2013, the volume of mechanical engineering manufacture increased from 859,2 billion tenge to 869,9 billion tenge by 1.2%.

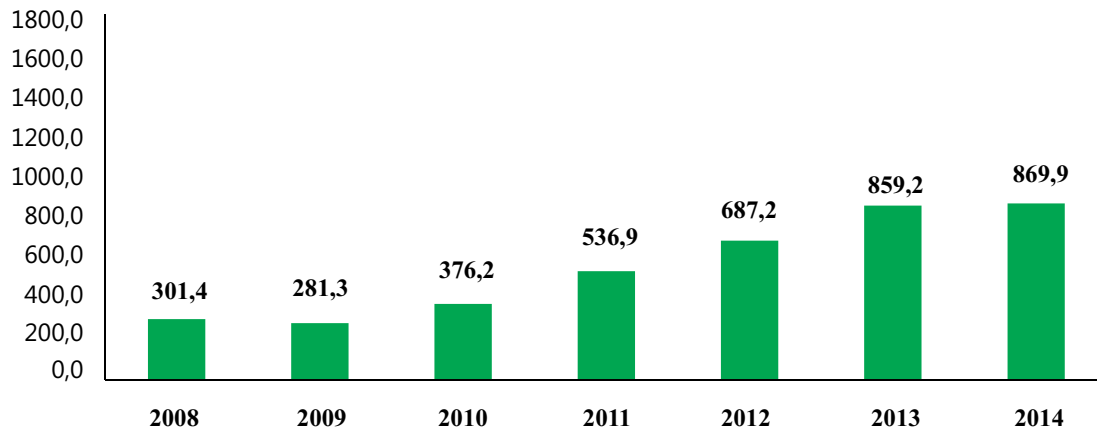


Figure 1 – The volume of mechanical engineering production during 2008-2014, billion tenge

In general, during the years of the state program of forced industrial-innovative development for 2010-2014, the country's new basic born full field of mechanical engineering will receive a powerful additional impetus to the development of: automotive, w / d mechanical engineering from Machinery, electrical equipment, oil and gas engineering (Figure 2).

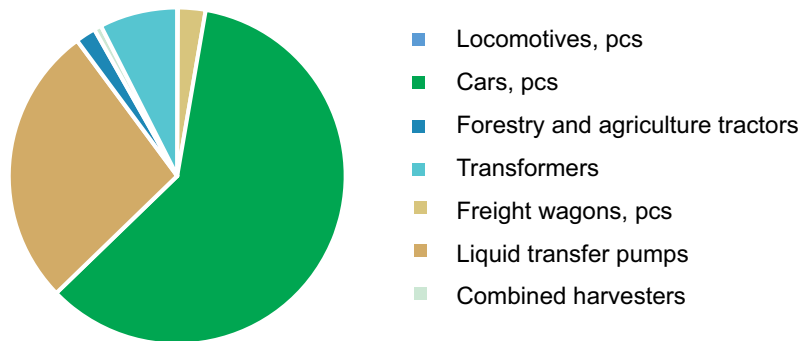


Figure 2 – The volume of mechanical engineering key products manufacture

Sources: Statistical Committee of the Ministry of National Economy of the Republic of Kazakhstan, the State Revenue Committee of the Ministry of Finance of Kazakhstan, TradeMap.

## Investments into fixed capital

At the end of 2014 the volume of investments into fixed capital of mechanical engineering industry was 51,6 billion tenge that is 3,7 times more than in 2008 (Figure 3).

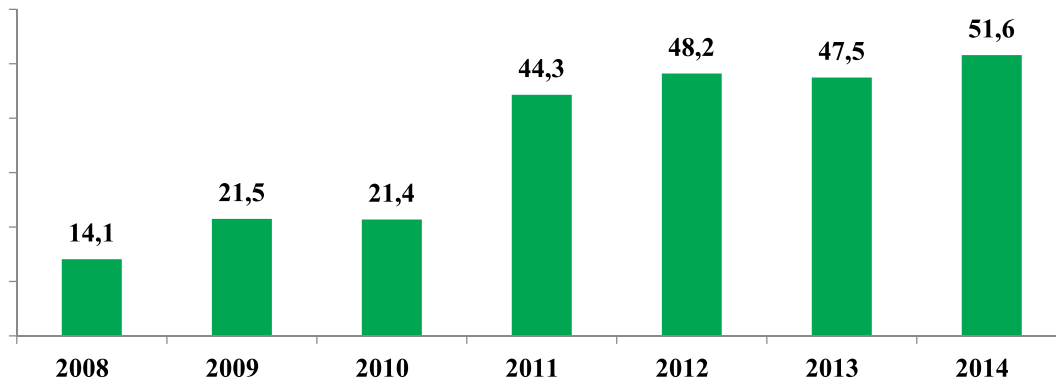


Figure 3 – The volume of investments into fixed capital of mechanical engineering during 2008 - 2014, billion tenge

## Export and import of mechanical engineering products.

The dynamics of mechanical engineering products volume is unclear. In the result of crisis during 2009 – 2010 there was drastic reduction (more than by 3 times) of the volume of products export. As a result of sustained growth over the past two years, in 2012, export exceeded the pre-crisis level. In 2013 export of mechanical engineering products compared with 2012 decreased by 4.5% - to 1 265,6 million US dollars.

At the end of 2014 the export of Kazakhstani mechanical engineering products amounted to 1.2 billion US dollars that is 2.2% less than the volume of export in 2008 (Figure 4).

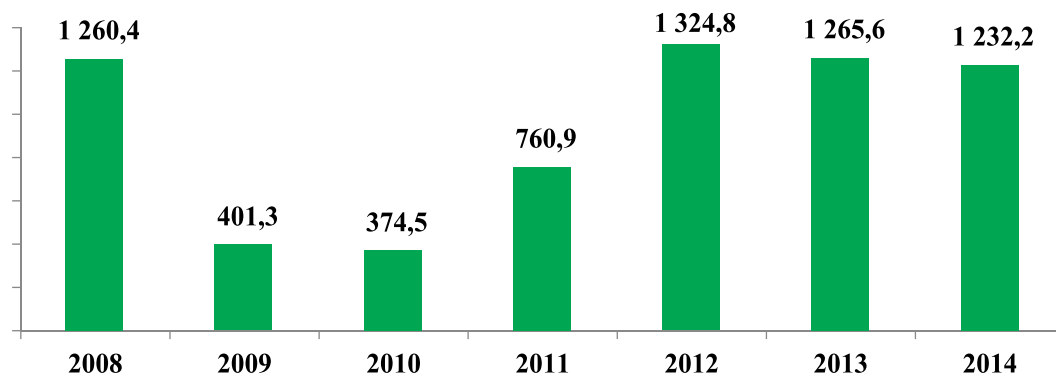


Figure 4 – The export of mechanical engineering products during 2008 - 2014, million US dollars

At the end of 2014 the import of Kazakhstani mechanical engineering products amounted to 17,5 billion US dollars that is 17,9% more than in 2008 (Figure 5).

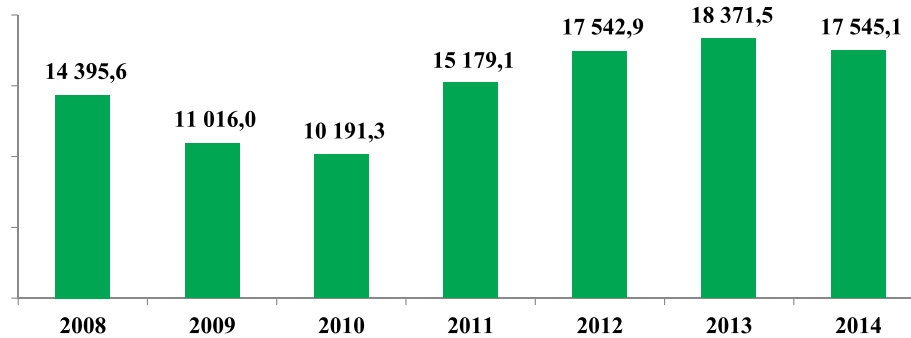


Figure 5 – The import of mechanical engineering products for 2008-2014, million US dollars

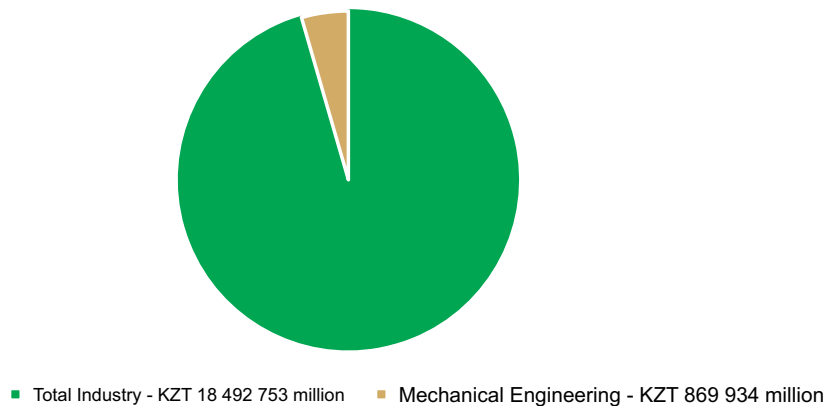


Figure 6 - The volume of mechanical engineering products manufacture in 2014

The volume of mechanical engineering products manufacture in the total volume of the industry made up 869,9 billion tenge or 4,7% in 2014.

Currently, within the mechanical engineering industry there have been selected priority areas, including the segments of auto industry, railway machinery, electrical equipment manufacture, agricultural machinery, oil and gas engineering, mining engineering.



“NC “KAZAKHSTAN ENGINEERING” JSC



## “NC “KAZAKHSTAN ENGINEERING” JSC

“NC “Kazakhstan Engineering” JSC (hereinafter – JSC “NC “Kazakhstan Engineering” or the Company) was established in accordance with RoK Government Resolution №244 dated March 13, 2003 “On some issues of the military-industrial complex of the Republic of Kazakhstan” by the inclusion of defense industry enterprises and RoK MD military plants into the Company. In October 2006, the state-owned shareholding of the Company (100%) was transferred to the payment of the registered capital of JSC “Samruk” Holding”, in September 2009 this shareholding was transferred to the trust management of RoK Ministry of Industry and Trade. Since June 2010 the Company shareholding was transferred to the trust management of RoK MD aiming to improve the management of RoK defense industry.

The Government of the Republic of Kazakhstan is the founder of the Company. The sole shareholder of the Company is “Samruk-Kazyna” JSC (hereinafter – “Samruk-Kazyna” JSC or the Fund).

The Company is a holding structure providing integrated financial, production and process policy at giant mechanical engineering enterprises specializing in manufacture of civil, special purpose and as well parapublic goods.

Information on shares as of 31.12.2014

- 1) The number, types of shares – 21 476 802 (twenty one million four hundred seventy-six thousand eight hundred and two) ordinary shares;
- 2) The number, types of shares distributed among the founders – 21 476 802 (twenty one million four hundred seventy-six thousand eight hundred and two) ordinary shares;
- 3) Nominal value per share paid by the founders is KZT 1000 (one thousand);
- 4) No preferred shares.

## Development Strategy - principal activities, objectives and tasks

Nowadays the world economy shows uncertainty signs that in many respects increases risks of considerable changes of an environment in the separate markets. Such situation most negatively influences to monogrocery economies which also include the Republic of Kazakhstan. For decrease in the long term of dependence on the world prices for energy carriers national economy has to be significantly diversified. It will allow to provide it stability and give the chance for adaptation to new economic conditions regardless of that with what they will be. The Strategy «Kazakhstan-2050» is accepted at the state level. Strengthening of positions in branch of mechanical engineering is called one of priorities of long-term strategy of development of the country.

The company, being the largest subject in branch, has to become the engine of its development, having created favorable institutional conditions for business development in the most demanded sectors of mechanical engineering at the expense of a transfer of technologies, introduction of the best the practician of management and an entry into the new geographical markets. Actually, the company has to not only create joint-stock cost and maximize profitability of operations, but also attract partners, develop intra-branch and intersectoral cooperation, provide development of anticipatory technologies which will allow all branch of mechanical engineering of the Republic of Kazakhstan to compete not only on local, but also on regional, and in the long term – in the global market.

Thus, mission of the Company consists in realization of strategic interests of the state in mechanical engineering development by effective management of assets and increase in long-term cost of the

organizations entering into group of the Company according to the Development Strategy of “NC “Kazakhstan Engineering” JSC for 2013-2022 established with the Board of Directors decision dated 17 February 2014 (Minutes №4).

By 2022 the Company has to turn into the effective machine-building holding uniting a number of the industrial enterprises, making machine-building production for all branches of economy, including the defense industry complex, the leading engineering company in the market of engineering services of Kazakhstan, and also into the center of competence of area of high technologies and the conventional expert in sectors of the specialization.

For achievement of a target state and in pursuance of mission the Company sets as the main strategic objective occurrence in TOP-50 the most effective machine-building corporations on an indicator “Labour productivity”.

Taking into account the current situation in the world and national economy, and also bearing in mind development prospects of integration processes, the competition increases even in domestic market. In this regard, it is crucial for achievement of a strategic objective of the Company equally to develop the following strategic directions:

1. Formation of effective and competitive Holding;
2. Assistance in development of branch of mechanical engineering for diversification and modernization of national economy;
3. Providing a sustainable development of the Company.



## “NC “KAZAKHSTAN ENGINEERING” JSC IN FIGURES AND FACTS IN 2014

“NC “Kazakhstan Engineering” JSC or Company following the results of 2014 reached the main objectives set by the Sole Shareholder. Today the Company has a high potential for development of machine-building branch of Kazakhstan. New investment projects are being realized. The company masters various subsectors of mechanical engineering and seeks for their realization together with the international leaders. Positive dynamics of operational and financial performance of activity of the Company testify to it.

The Company’s share in RoK mechanical engineering (the group of companies) in 2014 was at 8.8%. At the same time, in comparison with 2009 the volume of the group of Company manufacture in 2014 increased by 4.2 times, the financial result increased by 2.4 times (by 2010) and labor productivity by 3.3 times.

### Operational and financial metrics of the group of Company’s activity

| Metrics  | 2009 | 2010  | 2011 | 2012  | 2013  | 2014  | Growth dynamics from 2014 by 2009 |
|--|------|-------|------|-------|-------|-------|-----------------------------------|
| Volume of manufacture (billion tenge)              | 18,5 | 19,1  | 33,5 | 60,6  | 78,5  | 77,0  | 4,2 times                         |
| Assets (billion tenge)                             | 17,6 | 24,7  | 27,4 | 45,9  | 74,1  | 89,1  | 5,1 times                         |
| Financial result (million tenge) *                 | -244 | 378,8 | 2264 | 4558  | 3083  | 917   | 2,4 times **                      |
| Expenses on progress (investments) (million tenge) | 385  | 897   | 2044 | 9651  | 3552  | 6 720 | 17,5 times                        |
| Labor efficiency (thousand tenge/ person)          | 3584 | 3838  | 6560 | 10763 | 12868 | 11794 | 3,3 times                         |
| Average monthly salary (thousand tenge)            | 55,4 | 70,5  | 86,9 | 135,5 | 114,2 | 124,2 | 2,2 times                         |

\* Financial result = the net income before the minority interest deduction

\*\* - result by 2010

Labor efficiency reached 11,8 million tenge on the worker. The average branch value of productivity is exceeded to 1,5 times (7800 thousand tenge/person according to the Program of RoK mechanical engineering development for 2010-2014 y y).

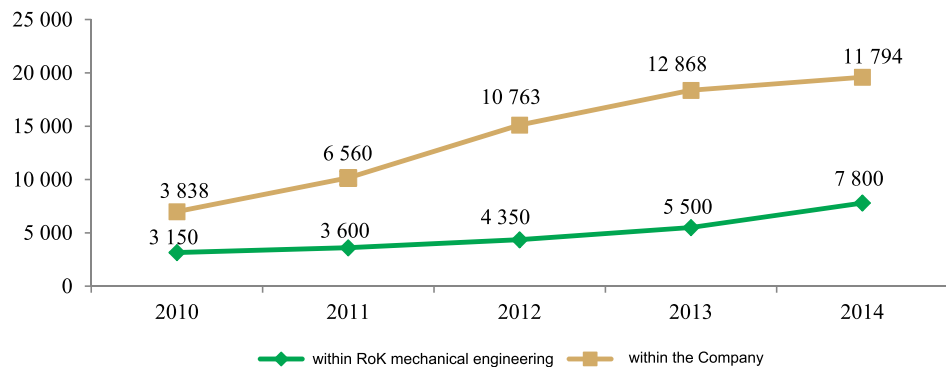


Figure 7 - Labor efficiency, thousand tenge/person.

The consolidated assets for the end of 2014 made 89,1 billion tenge. Growth of assets in comparison with 2013 made 1,2 times that is connected with supplement of the Company authorised capital to 9 375 billion tenge, increase in the volumes of investment, costs of fixed assets, IR (inventory reserve), implementation of new investment projects.

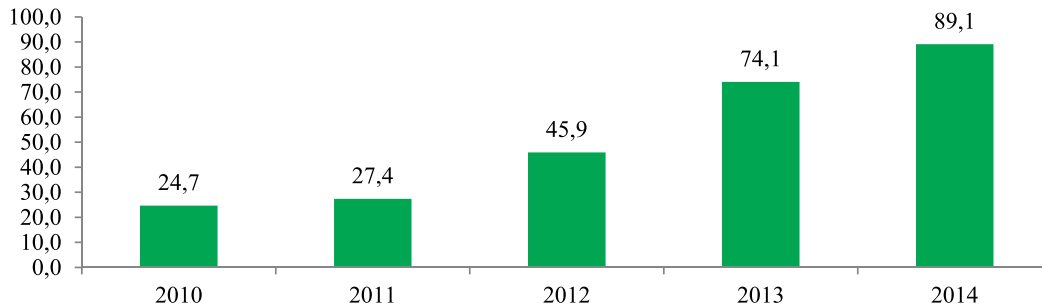


Figure 8- Assets (billion tenge)

The net consolidated profit made 917 million tenge (29% to the plan, 29% by 2013, growth by 2.4 times by 2010). The profit decrease to the fact of 2013 and non execution of planned target is caused by decrease in the consolidated volume of realization on 14 %.

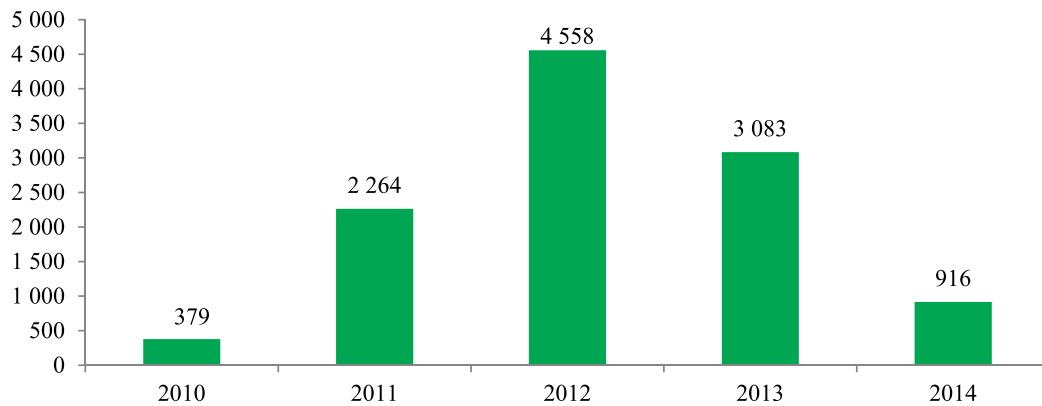


Figure 9- Financial Result (million tenge)

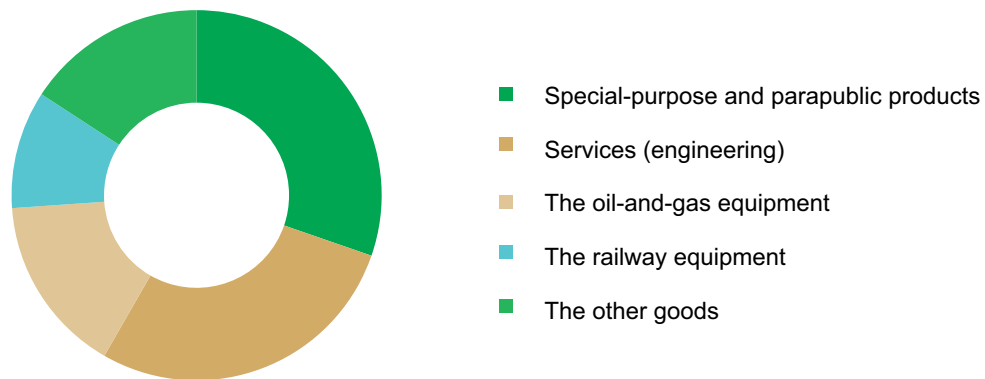


Figure 10- Structure of incomes



The volume of services implementation amounted up to 10,8 billion tenge that is 9% below the planned target for 2014 and 14% lower than in 2013.

The volume of the Company's services and products sales amounted up to 38,5 billion tenge with plan for 44,8 billion tenge, failure to reach the planned figure was 14% (a decrease to 14% in 2013). The sales decrease resulted from lower sales of civil products by 39% in comparison with the 2013 metrics, as well as with reduction of services volume by 9% of the plan, compared to the 2013 metrics by 14%. The main reason of plan failure is related to transfer of contractual obligations on the basic contracts of the state defense order of "Semey Engineering" for 1-2 quarters 2015.

Profitability of activity achieved 1.9% (plan — 5.8%). In 2013 this indicator was 7.0%. The decrease of profitability is associated with decrease of net consolidated profit.

Profitability of capital achieved 3.23 % (plan 10.78%) that is 70% less than planned target by 70%. Failure of these targets is associated with decrease of actual net consolidated profits for 2014.

ROACE constitutes 3.95% (plan — 8.3%). The execution of planned target made 48% in 2014.

EBITDA margin constitutes 13.8% (plan — 15,7%). The execution of planned target made 88% in 2014.

Actual share of export products in the volume of sales in 2014 constituted 8.04% of the total volume of sales that is equal to the indicator of the last year.

Actual rate of Kazakh content in the procurement of goods, works and services constituted 16% in 2014 that is by 6 % lower than planned target(plan for 2014 -22%).

## Financial support. Information on dividends.

Information on the guarantees received from the state and any obligations to the state, assumed by the Company, reveal in compliance with IFRS (International Financial Reporting Standards).

In accordance with the Decision taken at the annual general meeting of the Company shareholders №1 dated July 28, 2014, the Company annual financial statements for 2013 was approved and the size of dividends payment as per results of 2013 was determined in the amount of 652 285 (six hundred fifty-two thousand two hundred eighty-five) thousand tenge.

According to the Board of JSC «Samruk - Kazyna», dated June 15th, 2015 (Minutes № 26/15) the annual financial statements of the Company has been approved for 2014 and the size of the payment of the dividends to the Sole Shareholder on the results of the operations has been defined in the amount of 140 336 (one hundred and forty thousand three hundred and thirty-six) tenge for 2014.

Towards the subsidiaries, there is a Dividend Policy in the Company of JSC «Samruk - Kazyna», which has been approved by the decision of the Board of «Samruk - Kazyna», dated October 2nd, 2012 (Minutes №39 / 12).

On February 20, 2013 the Company entered into an agreement with "Deloitte" LLP on procurement of services for the audit of separate and consolidated financial statements of the Company for 2012-2014 (Contract № KE-3/21).

The contract value is 111 000 000 (one hundred and eleven million) tenge for the whole period or 37 000 000 (thirty seven million) tenge per year including VAT.

## Key events and achievements of JSC «NC» Kazakhstan Engineering «in 2014 as part of the Development Strategy and Plan Development

1. On May 22-25, 2014 the Company and enterprises of the Company group attended the third international exhibition of armor and military equipment “KADEX-2014” involving 300 defense enterprises from 27 countries.

2. By the Order of RoK Minister of Defense №5 dated January 13, 2014 the authority of independent director Oleg Kalugin, the member of the Board of Directors was terminated in advance.

3. By the Order of RoK Minister of Defense №104 dated March 13, 2014 the membership of the Company Board of Directors was changed, the authorities of the independent directors Kazeev Yevgeny Ivanovich and Aubakirov Kanysh Kaidarovich were terminated in advance. Baiseitov Bakhytbek Rymbekovich, Rakishev Kenes Hamituly and Mahat Rashit Mukaramuly were elected as independent directors.

4. By the Decision of the Board of Directors dated March 17, 2014 (Minutes of Meeting №5) the authority of the Deputy Chairman of the Management Board Sarsembayev Adilbek Zeynullaevich was terminated in advance. Ospanov Marat Akynovich was elected as the Deputy Chairman of the Management Board of «NC «Kazakhstan Engineering».

5. By the Order of RoK Minister of Defense №130 dated March 31, 2014 the authority of Dutbaev Nartai Nurtayevich, an independent director and the member of the Board of Directors was terminated in advance.

6. In accordance with the Law of the Republic of Kazakhstan, dated December 3rd, 2013 «About the republican budget for 2014-2016» and the Resolution of the Government of the Republic of Kazakhstan, dated December 12th, 2013 № 1329 «On the implementation of the Law of the Republic of Kazakhstan «On republican budget for 2014-2016» in 2014 the Nominal capital of JSC « NC «Kazakhstan Engineering «(hereinafter - the Company) was increased in the amount of 9 375 000 tenge under the program – 026 «Increase in the nominal capital of JSC «NC «Kazakhstan Engineering». The Ministry of Defense of the Republic of Kazakhstan was the administrator of the program.

These funds were intended for the implementation of the investment projects for production and maintenance of new types of the weaponizations and the military equipments in the Republic of Kazakhstan.

In accordance with Enactment 36 of the Law of the Republic of Kazakhstan «On Joint Stock Companies» (hereinafter - the Law), the Board of JSC «Samruk-Kazyna» (hereinafter - the Fund) it has been decided to increase the number of the stated stocks of the Company to 9 375 000 (nine million three hundred and seventy-five thousand) ordinary shares (Minutes №08/14, dated March 14th, 2014).

March 31st , 2014 the National Bank of Kazakhstan gave Certificate of the state registration of the capital issues in connection with an increase in the number of the stated stocks of the Company (Certificate of 03.31.2015 № A5115).

As a result - 9 375 000 (nine million three hundred and seventy-five thousand) shares of the common stocks of the Company (43.65% of the total number of the common stocks of the Company) became the property of the Committee of State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan (hereinafter - CSPP). Another 12 101 802 (twelve million one hundred and one thousand eight hundred and two) ordinary shares of the Company (56.35% of the total number of the common shares of the Company) were owned by the Fund.

According to the Resolution of the Government, dated September 26th, 2014 №1031, and in its execution, the order of CSPP(Committee of State Property and Privatization), dated December 15th, 2014 №1337 – the number of the block of shares of the Company are 9,375,000 (nine million three hundred and seventy-five thousand), that was 43.65 (Forty-three point sixty-five) percent of the total outstanding common shares of the Company, has been transferred to the account for the shares of the Fund.

Artificially of December 31st, 2014 in nominal holding of JSC «Information and Cost Center» (herein after - ICC) were 21 476 802 (twenty one million four hundred and seventy-six thousand eight hundred and two) ordinary shares of the Company, the Fund was registered as own.

December 26, 2014 amount of the shares of the Company, had been transferred by The Fund in Trust management to the Ministry of Defense, and which has been increased to 21 476 802 (twenty one million four hundred and seventy-six thousand eight hundred and two) ordinary shares (an additional agreement to the Contract on the transfer of shares of JSC National Company «Kazakhstan Engineering» in trust management from December 26th, 2014 № 4/459 - и).

7. In November 2014 a collective agreement for 2014-2016 was signed between the Company workers and the employer, it was registered in the Labor Inspection Astana Esil District.

8. On July 28, 2014 at the annual General meeting of shareholders of “NC” Kazakhstan Engineering” JSC (Minutes of Meeting №1) there was approved the audited annual financial statements of “NC” Kazakhstan Engineering” JSC for 2013 and the distribution order of net income by the end of 2013.

9. By the Decision of the Board of Directors of “NC” Kazakhstan Engineering” JSC dated August 29, 2014 (Minutes of Meeting №9) the authorities of Ospanov Marat Akynovich and Tilebaldinov Kairat Rahatovich, the Deputy Chairmen of the Management Board were terminated in advance due to their transfer to another job. Idrissov Yerlan Sapargalievich and Kapakov Aibek Amirbekovich were appointed as Deputy Chairmen of the Management Board of “NC “Kazakhstan Engineering” JSC.

10. On September 10, 2014 at the Extraordinary General meeting of shareholders of “NC “Kazakhstan Engineering” JSC (Minutes of Meeting №2) the authority of Abdiraiym Bakhytzhhan Zharylkasynovich, the member of the Board of Directors (the Chairman of the Board of Directors) of “NC “Kazakhstan Engineering” JSC was terminated due to the transfer to RoK Ministry of Justice. Sauranbayev Nurlan Yermekovich was elected as the member of the Board of Directors and took the chair at the meetings of the Board of Directors of “NC “Kazakhstan Engineering” JSC during the absence of the Chairman of the Board of Directors, appointed as RoK Deputy Minister of Defense on August 13, 2014.

11. On September 10, 2014 at the Extraordinary General meeting of shareholders of “NC “Kazakhstan Engineering” JSC (Minutes of Meeting №2) there was approved the Company’s Annual Report for 2013.

12. By the Decision of the Board of Directors of “NC “Kazakhstan Engineering” JSC dated November 19, 2014 (Minutes of Meeting №11) on the basis of the resignation notice, the authority of Smagulov Bolat Sovetovich, the Chairman of the Company Management Board was terminated in advance as well as labor relations from November 19, 2014. By the same decision, the Deputy Chairman of the Management Board of “NC “Kazakhstan Engineering” JSC Bizhanov Dimash Nurahmetovich was appointed as an Acting Chairman of the Management Board from November 20, 2014.



## ASSETS STRUCTURE





## Assets Structure

Company group includes 27 enterprises. Enterprises of the Company release products and deliver services for oil- and- gas, railway, energetic, agriculture engineering and military-industrial complex and as well in the field of radio electronics.

Due to shareholding transfer to discretionary management by RoK Ministry of Defense, the Company actually became the principal executive of state defense order that permitted to fill capacities of military enterprises of the Company group.

| Enterprise name   | Field of activity   |
|---|---|
| <b>Subsidiaries (more 50% of assets / shares ownership)</b> |   |
| “Car repair plant 811 KE” JSC                               | Repair of cargo automotive and caterpillar vehicles, engines and units, and also their modernization and re-equipment of automotive vehicles.   |
| “Car repair plant 832 KE” JSC                               | Carrying out repair work of automotive vehicles.  |
| “Plant named after S.M. Kirov” JSC                          | Navigation systems, radio stations, control panels for a railway complex; control units and the automated devices for an oil and gas complex, etc.  |
| “KazEng Electronics” JSC                                    | Modernization and capital repairs of arms, production of a dual purpose, production of modern means of communication and radio electronics products, assembly production of the computer equipment.   |
| “Machine Building Plant named after S.M. Kirov” JSC         | The sea underwater weapon and products of hydraulics and burning automatic equipment for the sea ships; pneumopunchers for a mining industry; spare parts for a railway complex.  |
| “Munaimash” JSC   | Borehole rod pumps for oil and gas sector; consumer goods.  |
| Scientific Research Institute “Gidropribor” JSC             | Construction and survey works as well as manufacture of sea, river boats, ships, watercrafts, floating crafts and submersibles, ground and air robots and boats, equipment for underground survey and pipelines, drilling rigs, underwater objects repairing. |
| “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC   | Production of the equipment for drilling and major well workover, the equipment for oil refineries and petrochemical productions, the traveling tool and means of mechanization for repair and service of tracks.   |
| Instrument-making Plant “Omega” JSC                         | Installations for water purification, production for the railroad; digital automatic telephone exchanges and components, telephone sets; consumer goods and others.   |

|   |   |
|---|---|
| “Semey Engineering” JSC   | Repair of arms and military equipment; capital repairs of engines of various modification.  |
| “Semipalatinsk Engineering Plant” JSC                                   | Caterpillar conveyors - tractors on the GT-T basic chassis, its modification and spare parts to it; production for a railway complex.   |
| “Tynys” JSC   | Aviation products, fire extinguishing means, the medical equipment, production of polyethylene pipes, security measure for power structures.  |
| Ural Plant “Zenit” JSC  | Boats and ships; design and production of steel constructions, spare parts, etc. for an oil and gas complex.  |
| “The Kazakhstan Aviation Industry” LTD                                  | Production and service of the aircraft equipment.   |
| “SRI “Kazakhstan Engineering” LTD                                       | Development and development of new types of special production for the enterprises of the defense industry complex (DIC), with application of automated control systems of arms.  |
| <b>Jointly controlled entities (50% shares ownership)</b>               |   |
| “Eurocopter Kazakhstan Engineering” LTD                                 | Production and service of helicopters.  |
| “Kazakhstan Aselsan Engineering” LTD                                    | Production of electron-optical devices.   |
| “Kazakhstan Engineering Distribution” LTD                               | Realization of products of the enterprises KI, attraction of investments, participation in state programs and tenders for supply of equipment.  |
| TOO «Thales Kazakhstan Engineering»                                     | Development, production and sale of the electronic equipment, systems and/or the software and providing the services connected with it; production, sale and maintenance of radio and communication equipment for the defensive market. |
| <b>Affiliated organizations (50% less of assets / shares ownership)</b> |   |
| “ZIKSTO” JSC  | Repair of freight railway cars, repair of wheelsets with the change of the elements.  |
| “Kamaz Engineering” JSC   | Production and realization of buses, cars, special equipment and spare parts to them.   |

|   |  |
|---|--|
| “Indra Kazakhstan Engineering” LTD  | Production and maintenance of radio-electronic systems of defensive value  |
| “Kaz-ST Engineering Bastau” LTD   | Investment holding activity and rendering defensive, engineering services (joint venture with «SingaporeTechnologiesEngineering»)  |
| “Semey Kamaz Engineering” LTD   | Assembly of automotive vehicles.   |
| “Specmash Astana” LTD   | Development and enhancement of mutually advantageous communications in the sphere trade - economic, scientifically - technical and other cooperation with domestic and foreign partners. Marketing activity. Rendering information services. |
| <b>Organizations where the Company owns less than 10% of shareholding</b> |  |
| “Aircraft repair plant №405” JSC  | Maintenance and repair of planes and helicopters.  |
| “Aircraft repair plant №406 GA” JSC                                       | Maintenance and repair of planes and helicopters.  |



## ASSET STRUCTURE OF NC «KAZAKHSTAN ENGINEERING»





## INVESTMENT ACTIVITY





## Investment activity

In 2014 the Company started the implementation of the following investment projects:

- 1) Reconstruction, modernization and development of "Semipalatinsk Engineering Plant" JSC and on its base creation of "MAZ" vehicle assembly plant;
- 2) Development of marine engineering at "Ural Plant "Zenith" JSC for development of a new class vessels release with a dry weight of 600 tons and other large products;
- 3) Establishment of aviation technical center in Astana ("Kazakhstan Aviation Industry" LLP);
- 4) Establishment of a center manufacturing electronic optical devices in the territory of the Republic of Kazakhstan;
- 5) The current modernization of "Plant named after S.M. Kirov" JSC manufacture;

The Company considers the opportunity to implement the following investment projects:

- 1) The organization of production of military and civil equipment in the RoK ("Kazakhstan Engineering Distribution" LLP);
- 2) Creation of a center of engineering and technical service, repair and modernization of military and civil armored machinery on the basis of "Semey Engineering" JSC;
- 3) Expansion and renovation of shipbuilding manufacture of small boats ("SRI "Gidropribor" JSC);
- 4) Manufacture of gas masks on the basis of "Tynys" JSC;
- 5) Modernization of "Plant named after S.M. Kirov" JSC manufacture;

It should be noted that establishment of joint ventures with foreign partners is fulfilled on a parity bases of 50% for 50%.

Some investment projects are strategic projects assigned to the development of military-industrial sector of the Republic of Kazakhstan in accordance with armed forces, other forces and military formation technological modernization program of the Republic of Kazakhstan and weapon and military equipment production development program for 2011-2015.

Investments to the investment projects are fulfilled by the Kazakhstan part at the expense of assets of the Republican Budget, "Samruk-Kazyna" JSC and own at the expense of the engaged loans (bonded programs).

The Company did not implement any low-profit and socially significant investment projects in 2014.





# CORPORATE MANAGEMENT



## Corporate Management

### Corporate management structure

The system of the Company bodies includes: The Sole Shareholder is the supreme body of the Company; The Board of Directors is the management body responsible for development of the Company's strategy, general management of its activities and for control of the Management Board activities;

The Management Board is the collegial executive body, managing the current activities of the Company and implementing the strategy defined by the Board of Directors and the Sole Shareholder;

Internal Audit Service is the body maintaining control over financial and economic activities of the Company's, making assessment of internal control, risk management, execution of documents on corporate management and consulting in order to improve the Company's activity.

The Corporate Secretary of the Company's Board of Directors (hereinafter - the Corporate Secretary) is responsible for enforcement of the Company's authorities and officials to follow procedures focused on protection of the rights and interests of the Sole Shareholder and also for the Company's compliance with the norms of legislation in the area of corporate management, the Charter provisions and other internal documents of the Company.

The Corporate Secretary facilitates effective exchange of information between the Company bodies and acts as an advisor to the members of the Board of Directors and the Management Board on all management matters.

Division of responsibility between the Company bodies, in accordance with the Corporate Charter is set out clearly and ensures that the interests of the Sole Shareholder are observed. Bodies of the Company have authority and resources to fulfill their obligations in a professional way.

The relationship between the Company, its subsidiaries and affiliated organizations is carried out within the approved corporate procedures through appropriate bodies of the Company and its subsidiaries and affiliates. Informal appeal of the Company workers to its subsidiaries and affiliates outside the approved corporate procedures is forbidden.

### Description of the system of corporate governance

Corporate management of the Company means combating of processes assuring management and control of the Company's activity, including relations between the Sole Shareholder, discretionary manager presented by RoK Ministry of Defense, the Board of Directors, the Management Board and stakeholders on behalf of the Sole Shareholder, the Company and its subsidiary and affiliated organizations.

Rights of the Sole Shareholder and property right disposal procedures are indicated in the Corporate Charter.

The Sole Shareholder of the Company positively affects the corporate management practice because promotes development and acceptance of principal internal statutory documents in the field of corporate management, renders methodological assistance, promotes organization of effective processes of corporate management.

The company considers development of corporate management as means of increase of efficiency of the Company activity, its cost, reputation, decrease in expenses for attraction of the capital.

On the annual basis by the order of the Fund, the corporate management diagnostics is carried out according to the Methods of corporate management diagnosis in the companies of the group of Fund.

According to the results of the Company corporate management diagnostics, in order to improve further the corporate management system of the Company and to implement recommendations addressing identified discrepancies, the Board of Directors establishes Corporate Governance Improvement Plan for coming year. At the end of the year the Company reports to the Board of Directors on implementation of measures in accordance with the Action Plan.

## Principles and report on Corporate Management

The company follows the Code of Corporate Management for systematization of corporate management, ensuring of activity transparency and confirmation of the Company readiness to follow standards of good corporate management.

Diagnostics was made in accordance with the Methods of corporate management diagnostics in the companies of the group of “Samruk-Kazyna” JSC approved by the Management Board of “Samruk-Kazyna” JSC.

Rating of compliance of corporate management level of the Company with the requirements of the best world practice is 67.8%.

In comparison with the last year level of corporate management of the Company grew to 5.6%.

Basic principles of corporate management of the Company are:

### **1) Principle of protection of rights and interests of the Sole Shareholder;**

The Fund positively affects the corporate management practice because promotes development and acceptance of principal internal statutory documents in the field of corporate management, renders methodological assistance, promotes organization of effective processes of corporate management.

The interaction of the Company with the Fund is carried out in accordance with the concept of distribution of authority of joint stock companies, all voting shares of which are owned by the Fund.

The company provides the effective participation of the Fund and the beneficial owner in key decisions of corporate management, such as appointment and election of members of the Board of Directors.

The Sole Shareholder’s rights and the procedure for disposal of property rights are established in the Corporate Charter.

### **2) Principle of the effective management of the Company by the Board of Directors and the Management Board;**

Activity of the Company Board of Directors is regulated by RoK legislation, the Corporate Charter, Corporate Governance Code, Regulations on the Board of Directors.

The Corporate Charter defines the criteria to be met by members of the Board of Directors, including independent directors of the Company Board of Directors. Requirements to the members of the Board of Directors are defined in RoK Law “On Joint Stock Companies” and in the Rules of independent directors of “Samruk-Kazyna” JSC selection. There are functioning Committees of the Board of Directors for audit, remuneration and appointments, strategies and investments.

In accordance with world’s best practice, independent directors were elected as Chairmen of the Board of Directors Committees.



The Management Board of the Company being the Company's collegial executive body, carries out decisions of the Sole Shareholder and the Board of Directors, is accountable to the Board of Directors and responsible before him for execution of assigned duties.

The rights and obligations of the members of the Management Board are determined by the Corporate Charter, the Regulations on the Management Board, the Labor Contract. The Regulations on the Management Board provide the organizational and legal basis of the Management Board activity, its competence, responsibility, order of formation, work sequence, procedure for decisions execution and the minutes keeping, responsibility of the Board members. The Management Board manages current activity of the Company and takes decisions on the Company's activities which are out of the competence of the Company officials and other bodies. Timely and efficiently executes the decisions of the Sole Shareholder and the Board of Directors. The Management Board meetings are held at least once per week.

Most of the meetings of the Board of Directors and the Management Board are held in person under the work plan of the Board of Directors and respectively the Management Board of the Company, active discussions are carried out and timely and efficient decisions are taken, the Board of Directors and the Management Board are actively involved in risk management and other issues in accordance with the their competence.

### **3) Principle of the Company independent activity;**

The Company operates in order to best follow interests of the Company Sole Shareholder in accordance with the provisions of the Corporate Governance Code, the Corporate Charter and RoK laws. The company operates independently. Transactions and relations between the Company and the Sole Shareholder are carried out under the current legislation, the Code of Corporate Governance.

### **4) Principle of transparency, objectivity and timeliness of information disclosure on the Company activity;**

In accordance with this principle the timely disclosure of the Company's activity information is ensured, including its financial status, economic indicators, activity results, ownership and management structure at the corporate website of the Company, as well as in the Company's annual reports.

### **5) Principles of legality and ethics;**

The Company has an approved Code of Conduct (the decision of the Company Board of Directors dated 31 May 2013, Minutes of Meeting №5) that applies to all employees and officials, including members of the Board of Directors. In the process of the Code of Conduct implementation, all employees of the Company were introduced it with signature confirmation. The document is explained again when new employees are enrolled.

### **6) Principles of effective dividend policy;**

Dividends payment is governed by the Company Dividend Policy (Minutes of Meeting of the Fund Board №39 / 12 dated 2 October 2012). The Dividend Policy contains principles, procedure and terms for dividends payment.

### **7) Principle of effective HR policy;**

Policy regulating social and labor relations is aimed at creating good work conditions, improving the quality of workers' life, their skills level increase. Maps of administrative staff purposes, as well as maps of



leadership and management key indicators are approved annually. Within the recruitment system open competition for vacant positions is conducted.

**8) The principle of protection of the environment;**

The company is committed to follow the principles of maximum environment respect and sustainable use of natural resources, contributes to the prevention of negative impacts on environment, takes initiatives aimed at increasing responsibility for environment, supports development and distribution of environment friendly and energy-saving technologies.

**9) Principle for regulation of corporate conflicts and conflicts of interests;**

In accordance with the Code of Corporate Governance and Code of Conduct all Company employees and officials shall behave in order to avoid a situation in which conflict of interest may arise in respect of themselves (or persons related to them) or others.

**10) Principle of responsibility.**

In order to exercise its rights as a shareholder / founder the Company carries out relations with subsidiaries and affiliated organizations in accordance with the requirements of the legislation, the Corporate Charter, the Corporate Governance Code and internal documents of the Company, the statutes of subsidiaries and affiliated organizations. The company works with business partners on the basis of long-term cooperation, mutual benefit, respect, trust, honesty and fairness. The Company conducts business only with reliable business partners who are engaged in lawful activities; observes all conditions of the contractual relationship. The Company is committed to continuous improvement of service standards and quality of services; shows respect and integrity in relationships as per the Code of Conduct and the Company the Corporate Governance Code; ensures compliance with the generally accepted moral and ethical standards.



## COMPOSITION, BIOGRAPHY OF THE MEMBERS OF THE BOARD OF DIRECTORS



## Composition, biography of the members of the Board of Directors

The members of the Board of Directors in 2014 as follows:

|   |   |
|---|---|
| <b>Abdiraiym Bakytzhan Zharylkasynovich</b> | Chairman of the Board Directors<br>16.10.2013 - 10.09.2014                    |
| <b>Sauranbayev Nurlan Ermekovich</b>        | Member of the Board Directors, taking chair at BD meetings<br>From 10.09.2014 |
| <b>Aubakirov Kanysh Kaidarovich</b>         | Member of the Board Directors, Independent director<br>03.03.2012 -13.03.2014 |
| <b>Aubakirov Serik Gabdullovich</b>         | Member of the Board Directors<br>From 04.12.2013                              |
| <b>Baiseitov Bakhytbek Rymbekovich</b>      | Member of the Board Directors, Independent director<br>From 13.03.2014        |
| <b>Dutbayev Nartai Nurtaevich</b>           | Member of the Board Directors, Independent director<br>05.04.2013 -31.03.2014 |
| <b>Kazeev Evgeniy Ivanovich</b>             | Member of the Board Directors, Independent director<br>05.03.2011 -13.03.2014 |
| <b>Kalugin Oleg Antolievich</b>             | Member of the Board Directors, Independent director<br>03.03.2012 -13.01.2014 |
| <b>Makhat Rashit Mukaramuly</b>             | Member of the Board Directors, Independent director<br>From 13.03.2014        |
| <b>Rakishhev Kenes Khamituly</b>            | Member of the Board Directors, Independent director<br>From 13.03.2014        |
| <b>Rau Albert Pavlovich</b>                 | Member of the Board Directors<br>From 10.06.2010                              |
| <b>Salimgereev Malik Zhanabayevich</b>      | Member of the Board Directors<br>From 03.03.2012                              |
| <b>Smagulov Bolat Sovetovich</b>            | Member of the Board Directors<br>05.10.2010 - 27.01.2015                      |

**As of December 31, 2014 the Board of Directors consists of eight members, including three Independent directors.**



### **Sauranbayev Nurlan Ermekovich**

*Member of the Board of Directors, taking chair at BD meetings*

- Deputy of RoK Minister of Defense since 14.08.2014;
  - Vice-minister of RoK Ministry of Industry and New Technologies (18.05.2011-13.08.2014);
  - Managing Director of “Samuryk-Kazyna” JSC (17.01.2011-17.05.2011);
  - Managing Director of “NC “KazMunaiGaz” JSC (22.07.2009- 24.06.2010);
- Year of birth: 1967  
Higher education  
He has no shares of suppliers and competitors of the Company



### **Aubakirov Serik Gabdullovich**

*Member of the Board of Directors*

- Deputy of the Chairman of Emergency Situations Committee of RoK Ministry of Defense since 10.2014;
  - The Chairman of Committee of a fire service of the Ministry of Emergency Situations of the Republic of Kazakhstan (2008 – 2014);
- Year of birth: 1965  
Higher education  
He has no shares of suppliers and competitors of the Company



### **Rau Albert Pavlovich**

*Member of the Board of Directors*

- Deputy Minister of RoK Ministry of Industry and New Technologies (since 13.08.2014);
  - First Vice Minister of Industry and New Technologies of the Republic Kazakhstan (2010 – 2014);
  - Akim of Akmola region (2008 - 2010).
- Year of birth: 1960  
Higher education  
He has no shares of suppliers and competitors of the Company



### **Salimgereev Malik Zhanabayevich**

Member of the Board of Directors,  
representative of “Samruk-Kazyna” JSC in BD

- Chief Director of “Samruk-Kazyna” JSC Assets Management from 2014;
- Managing Director of “Samruk-Kazyna” JSC (2012-2014);
- Oil and Gas Assets Management Director of “Samruk-Kazyna” JSC (2010 - 2012);
- Director of Oil Industry Development Department of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (2007 - 2010).

Year of birth: 1960

Higher education

Candidate of Geological and Mineralogical Sciences

He has no shares of suppliers and competitors of the Company



### **Baiseitov Bakhytbek Rymbekovich**

Member of the Board of Directors, Independent Director

- Chairman of Supervisory Board of “BRB Invest” group (from 2013);
- Vice-chairman of “Pearl Oriental Oil Limited” (since 2011);
- Member of the BD of “Yak-Alakon” Corporation (since 2003);
- Chairman of the BD of “BCC Invest” JSC (since 1999);
- Chairman of the BD of “BankCenterKredit” JSC (since 1997).

Year of birth: 1958

Higher education

He has no shares of suppliers and competitors of the Company



### **Makhat Rashit Mukaramuly**

Member of the Board of Directors, Independent Director

- Independent Director of “Tartyp” JSC (since 2013);
- Member of the Advisory Board of «Kaspi Bank» JSC (since 2012);
- Commercial Director of “Company Wellcomm” (2011 - 2013);
- Vice-President of “PRIME INVESTMENT COMPANY”LLP (2005 – 2011).

Year of birth 1976

Higher education

He has no shares of suppliers and competitors of the Company





### Rakishev Kenes Khamituly

Member of the Board of Directors, Independent Director

- Chairman of the Management Board of “SAT & Company” JSC (since 09.2007);
  - General Director of “Mercury”LLP (09.2004-04.2005);
  - Deputy General Director of Marketing of “KazTransGas” JSC (10.2003-09.2004).
- Year of birth: 1979  
Higher education  
He has no shares of suppliers and competitors of the Company



### Smagulov Bolat Sovetovich

Member of the Board of Directors

- Chairman of the Management Board of NC “Kazakhstan Engineering” JSC from 2010 -19.11.2014;
  - Chairman of the Management Board of “Kazakh State and Private Partnership Center” JSC (2008 - 2010)
- Year of birth: 1964  
Higher education  
He has no shares of suppliers and competitors of the Company

According to the item 3 of the Order of RoK Minister of Defense № 5 dated January 13, 2014 the authority of independent director Oleg Kalugin, the member of the Board of Directors was terminated in advance.

According to the item 3 of the Order of RoK Minister of Defense №104 dated March 13, 2014 the membership of the Company Board of Directors was changed, the authorities of the independent directors Kazeev Yevgeny Ivanovich and Aubakirov Kanysh Kaidarovich were terminated in advance. In accordance with item 4 of the current order Baiseitov Bakhytbek Rymbekovich, Rakishev Kenes Hamituly and Mahat Rashit Mukaramuly were elected as independent directors.

According to the item 3 of the Order of RoK Minister of Defense №130 dated March 31, 2014 the authority of Dutbaev Nartai Nurtayevich, an independent director and the member of the Board of Directors was terminated in advance.

According to the decision of the Extraordinary General meeting of shareholders dated September 10, 2014, Minutes of Meeting №2 the authority of Abdiraiym Bakhytzhan Zharylkasynovich, the Chairman of the Board of Directors was terminated. In accordance with the current decision Sauranbayev Nurlan Yermekovich was elected as the member of the Board of Directors who also was elected as the Chairman at every meeting of the Company Board of Directors.

Independent Directors of the Board of Directors are elected according to the Rules of selection of Independent Directors of “Samruk-Kazyna” JSC companies established by the decision of the Management Board №36/10 dated June 8, 2010.

## Report on the activities of the Board of Directors

In 2014 there were 12 meetings of the Company Board of Directors, including 10 full-time and 2 meetings in absentia. The members of the Board of Directors considered 112 issues.

*Attendance table of the Board of Directors meetings in 2014*

| Full name, Position  | Attendance in meetings of the Board of Directors (in %) |
|--|---|
| <b>Abdiraiym Bakytzhan Zharylkasynovich</b><br>Chairman of the Board of Directors                | 100   |
| <b>Sauranbayev Nurlan Ermekovich</b><br>Member of the Board of Directors                         | 100   |
| <b>Dutbayev Nartai Nurtaevich</b><br>Member of the Board of Directors, Independent Director      | 80  |
| <b>Aubakirov Serik Gabdullovich</b><br>Member of the Board of Directors                          | 42  |
| <b>Rau Albert Pavlovich</b><br>Member of the Board of Directors                                  | 50  |
| <b>Salimgereev Malik Zhanabayevich</b><br>Member of the Board of Directors                       | 92  |
| <b>Kalugin Oleg Antolievich</b><br>Member of the Board of Directors, Independent Director        | 100   |
| <b>Kazeev Evgeniy Ivanovich</b><br>Member of the Board of Directors, Independent Director        | 75  |
| <b>Aubakirov Kanysh Kaidarovich</b><br>Member of the Board of Directors, Independent Director    | 50  |
| <b>Baiseitov Bakhytbek Rymbekovich</b><br>Member of the Board of Directors, Independent Director | 75  |
| <b>Rakishhev Kenes Khamituly</b><br>Member of the Board of Directors, Independent Director       | 63  |
| <b>Makhat Rashit Mukaramuly</b><br>Member of the Board of Directors, Independent Director        | 100   |
| <b>Smagulov Bolat Sovetovich</b><br>Member of the Board of Directors                             | 84  |

The key questions of Board of Directors considered in 2014:

At meetings of the Board of Directors the special attention was paid to such issues as:

- approval of documents regulating internal activities of the Company according to a list established by the Company Board of Directors;
- staffing of the Management Board;
- approval of the Company Development Plan;
- approval of the Risk Management Policy (as amended) and procedures for risk management and internal control for 2014-2015;
- And making decisions on other issues.

The Board of Directors meetings were held on a regular basis in accordance with the approved work plan of the Board of Directors for 2014.

As a whole for the reporting period the Board of Directors and its committees actively interacted with the sole shareholder, the trustee, executive body and all interested parts of the corporate relations for the effective solution of the tasks set for the Company.



## Committees of the Board of Directors

**At the Company Board of Directors there are 3 functioning committees:**

- 1) Audit Committee;
- 2) Committee on Appointments and Remunerations;
- 3) Committee on Strategy and Investments.

### **Audit Committee of the Company Board of Directors**

Regulation of the Audit Committee was approved by the Company Board of Directors dated 9 April 2012 (Minutes of Meeting №82).

The Audit Committee consists of three people - two independent directors and an expert. The Audit Committee assists the Company Board of Directors through the development of recommendations on:

- 1) establishment of the effective financial and economic control system of the Company (including for completeness and reliability of financial statements);
- 2) control of the reliability and efficiency of internal control systems and risk management and as well corporate management documentation execution;
- 3) control of independence of external and internal audit and as well to observe the process of RoK legislation enforcement.

*Table of meeting attendance for 2014*

| Full name  | Position   | Meeting attendance (%) |
|--|--|------------------------|
| Kazeyev Yevgeny Ivanovich<br>(15.01.14 - 17.03.14)                           | Chairman of Audit Committee                                  | 100                    |
| Aubakirov Kanysh Kaidarovich<br>(15.01.2014 - 17.03.2014)                    | Member of Audit Committee                                    | 0                      |
| Rakishev Kenes Khamituly<br>(17.03.2014 - 19.12.2014)                        | Chairman of Audit Committee                                  | 90                     |
| Makhat Rashit Mukaramuly<br>(17.03.2014 - 19.12.2014),<br>(since 19.12.2014) | Member of Audit Committee,<br>Chairman of Audit Committee    | 100                    |
| Baiseitov Bakhytbek Rymbekovich<br>(since 19.12.2014)                        | Member of Audit Committee                                    | 0                      |
| Mynsharipova Saiya Naimanbaikyzy<br>(since 2012)                             | Member of Audit Committee -<br>expert with the right to vote | 100                    |

At Audit Committee meetings there were reviewed issues on approval of Internal Audit Service reports, determination of audit organization fee and hearing of audit organization reports, approval of internal documents on risk management system and internal control.

## Committee on Appointments and Remunerations of the Company Board of Directors

Regulation of the Committee on Appointments and Remunerations was approved by the Company Board of Directors dated 4 July 2012 (Minutes of Meeting №86).

The Committee on Appointments and Remunerations consists of three people - two independent directors and an expert.

Work of the Committee on Appointments and Remunerations is directed on rendering assistance to Company Board of Directors by development of recommendations on:

1) involvement of the qualified experts in structure of the Board of Directors, of the Management Board, to a position of Head of Internal Audit Service and Corporate secretary

2) formation of offers for the Company Board of Directors about determining remuneration, Independent Directors and other Board of Directors members, the Management Board members according to the purposes, tasks, the current position of the Company, and level of remuneration in similar, by types and activity scales.

In 2014 Committee on Appointments and Remunerations conducted 7 meetings including (5 in-person meetings and 2 meetings in absentia).

*Table of meeting attendance for 2014*

| Full name   | Position  | Meeting attendance (%) |
|---|---|------------------------|
| Aubakirov Kanysh Kaydarovich<br>(15.01.2014 - 17.03.2014) | Chairman of Committee on Appointments and Remunerations                                 | 100                    |
| Kazeev Yevgeniy Ivanovich<br>(15.01.2014 - 17.03.2014)    | Member of Committee on Appointments and Remunerations                                   | 100                    |
| Makhat Rashit Mukaramuly<br>(since 17.03.2014)            | Chairman of Committee on Appointments and Remunerations                                 | 100                    |
| Rakishev Kenes Khamituly<br>(17.03.2014 - 19.12.2014)     | Member of Committee on Appointments and Remunerations                                   | 100                    |
| Baiseitov Bakhytbek Rymbekovich<br>(since 19.12.2014)     | Member of Committee on Appointments and Remunerations                                   | 0                      |
| Kaisenova Gulzhikhan<br>Kabdylkayrova (since 2012)        | Member of Committee on Appointments and Remunerations<br>- expert without voting rights | 100                    |

At the meetings of Committee on Appointments and Remunerations there were addressed the issues of approval of the Company executives KPI cards, development of recommendations for the payment of remuneration to the members of the Management Board and others.



## Committee on strategy and investments of the Company Board of Directors

Regulation of the Committee on Strategy and Investments was approved by the Company Board of Directors dated 31 May 2013 (Minutes of Meeting №5).

The Committee on Strategy and Investments consists of three people - two independent directors and an expert.

Main objective of the Committee activity is development and submission of recommendations to the Company Board of Directors regarding following issues:

- 1) determination of strategic and priority directions of the Company activity;
- 2) estimate of efficiency of perspective investment projects and their influence upon increase of the Company's joint-stock cost;
- 3) control of implementation of the Company strategic and investment projects;
- 4) arrangement of recommendations for the Company Board of Directors regarding opening of the Company's branches and representative offices in the Republic of Kazakhstan and in foreign countries;
- 5) effective management of the Company assets.

In 2014 Committee on Strategy and Investments conducted 2 in-person meetings.

*Table of meeting attendance for 2014*

| Full name   | Position   | Meeting attendance (%) |
|---|--|------------------------|
| Dutbayev Nartay Nurtayevich<br>(15.01.2014 - 8.07.2014)                             | Chairman of the Committee on Strategy and Investments  | 100                    |
| Kazeyev Yevgeniy Ivanovich<br>(15.01.14 - 17.03.14)                                 | Member of the Committee on Strategy and Investments  | 100                    |
| Baiseitov Bakhytbek Rymbekovich<br>(17.03.2014 - 18.07.2014),<br>(since 18.07.2014) | Member of the Committee on Strategy and Investments, Chairman of the Committee on Strategy and Investments | 0                      |
| Rakishev Kenes Khamituly<br>(18.07.2014 - 19.12.2014)                               | Member of the Committee on Strategy and Investments  | 0                      |
| Makhat Rashit Khamituly<br>(since 19.12.2014)                                       | Member of the Committee on Strategy and Investments  | 0                      |
| Mami Elvira Kairatovna<br>(2013 - 18.07.2014)                                       | Expert of the Committee on Strategy and Investments  | 100                    |
| Anoshenko Yuri Stanislavovich<br>(18.07.2014- 19.12.2014)                           | Expert of the Committee on Strategy and Investments  | 0                      |

At the meetings of Committee on Strategy and Investments there were reviewed the issues of approval of corrections of the Company development strategy for 2013-2022, Plan of the Company assets restructuring for 2013-2014, Company assets management.

## Information about Remunerations

Members of the Board of Directors, except Independent Directors, carry out their activity on a gratuitous basis. The remuneration amount of independent directors is established by the order of the Beneficial Owner. The following remunerations are paid to Independent Directors according to Rules of remuneration payment and reimbursement of expenses for independent directors of “Samruk-Kazyna” JSC:

- 1) fixed remuneration
- 2) the additional remuneration for participation in the work of the committees of the Board of Directors, as well as in meetings initiated by the Chairman of the Board of Directors and / or Chairman of the Fund Board, Chairman of the Company Management Board.

In 2014, the payment of remuneration to the Company independent directors, as well as the payment to the Board members for participation in each internal meeting of the Committees of the Board of Directors was not made.

## Internal Audit Service of the Company

The Internal Audit Service was established by the Decision of the Company Board of Directors dated 11 May 2007; the principal objective of the Internal Audit Service is to provide the Board of Directors of the Company with independent and reliable information for the effective Company management by assessment of internal control, risk management and corporate management.

The main objectives of the Internal Audit Service are:

- 1) assessment and support for improvement of the Company corporate management system;
- 2) assessment and support for improvement of internal control system;
- 3) assessment and support for improvement of corporate management system.

In order to observe principles of objectivity and independence of the internal audit, the Internal Audit Service of the Company is functionally subject and accountable to the Board of Directors and supervised by the Audit Committee of the Company. The Internal Audit Service in its activity follows the Provision on the Company Internal Audit Service and other statutory documents regulating activity of the Company Internal Audit Service.

Nowadays the Internal Audit Service consists of 5 people – the Head of Internal Audit Service and four auditors:

1. The Head - Madiyeva Aizhan Maratovna;
2. Auditor - Murzabayev Ermek Zhiksangaliyevich;
3. Auditor - Konysova Zhanar Kenesbayevna;
4. Auditor - Dauletova Bakhitzhan Maratovna;
5. Auditor - Sembayev Askar Kazhakhimovich;

By the Decision of the Board of Directors dated January 8, 2014 (Minutes of Meeting №2) Madiyeva Aizhan Maratovna was appointed as the Head of the Internal Audit Service;

By the Decision of the Board of Directors dated January 8, 2014 (Minutes of Meeting №2) Konysova Zhanar Kenesbaevna was appointed as an auditor of Internal Audit Service;

By the Decision of the Board of Directors dated February 17, 2014 (Minutes of Meeting №14) Dauletova Bakhitzhan Maratovna was appointed as an auditor of Internal Audit Service;

The term of office of the Company Internal Audit is determined before the expiration of the term of office of the Company Board of Directors as a whole.

## Report on the activities of Internal Audit Service of the Company for 2014

By the Decision of the Company Board of Directors dated January 8, 2014 (Minutes of meeting №96) there was approved the Annual auditor plan of the Internal Audit Service for 2014. The Annual auditor plan was amended by the decisions of the Company Board of Directors on February 17, 2014 (Minutes of meeting №4) and June 20, 2014 (Minutes of meeting №6).

The Internal Audit Service according to the approved Annual auditor plan performed 14 auditor tasks in 2014 with achievement in full auditor purposes and tasks.

The audit covered such key business processes such as auditing the distribution of funds raised by issuing bonds on the domestic and foreign markets, calculation of remuneration for the Company executive and members of the Management Board, monitoring the implementation of the Company Development Strategy for 2013-2022 and the Company Development Plan for 2014-2018. An audit of industrial, financial and operational processes of the Company and monitoring the execution of the Company's assets restructuring plan. Based on the results of conducted audits, the Internal Audit issued recommendations aimed at improving the system of corporate management, internal control and risk management in the Company, to increase the efficiency of management in the framework of operational and strategic performance objectives.

Actions for execution of the Annual auditor plan are executed in full, the report on Service activity for 2014 was considered by the Audit Committee of the Company Board of Directors and the Company Board of Directors.

The Internal Audit Service on a constant basis monitors the execution of the issued remarks and recommendations and reports on results to the Audit Committee.

In the Company there is a system of remarks elimination and implementation of recommendations of The Internal Audit Service, external auditors and other checks, including "Samruk- Kazyna" JSC and government bodies through formation of mitigation plans with hearing of performers about results of the performed work on the Audit Committee of the Board of Directors, with the subsequent informing of the Company Board of Directors.

In all affiliated organizations of the Company there were formed Internal Audit services working on the basis of accepted internal documents, regulating their activity.



# THE MANAGEMENT BOARD COMPOSITION, BIOGRAPHY OF THE MEMBERS OF THE MANAGEMENT BOARD

## THE MANAGEMENT BOARD

### Composition, biography of the members of the Management Board

Members of the Management Board of the Company in 2014 were:

|  |   |
|--|---|
| <b>Smagulov Bolat Sovetovich</b>         | Chairman of the Management Board<br>02.08.2010 - 19.11.2014;  |
| <b>Bizhanov Dimash Nurahmetovich</b>     | Deputy Chairman of the Management Board<br>Since 28.08.2012;<br>Vice-president<br>31.05.2011- 27.08.2012;         |
| <b>Idrisov Yerlan Sapargalievich</b>     | Deputy Chairman of the Management Board<br>Since 29.08.2014;  |
| <b>Kapakov Aibek Amirbekovich</b>        | Deputy Chairman of the Management Board<br>Since 29.08.2014;  |
| <b>Muratov Yerlan Muratovich</b>         | Deputy Chairman of the Management Board<br>Since 04.11.2013;  |
| <b>Ospanov Marat Akynovich</b>           | Deputy Chairman of the Management Board<br>17.03.2014 - 29.08.2014;   |
| <b>Sarsembayev Adilbek Zeynullaevich</b> | Deputy Chairman of the Management Board<br>28.08.2010 - 17.03.2014;<br>Vice-president<br>24.08.2010 - 27.08.2012; |
| <b>Tilebaldinov Kairat Rahatovich</b>    | Deputy Chairman of the Management Board<br>28.08.2012 - 29.08.2014;<br>Vice-president<br>24.04.2012 - 27.08.2012; |
| <b>Bergenev Adylgazy Sadvokasovich</b>   | Managing Director<br>Since 17.03.2014<br>Chief of staff<br>31.05.2010 - 16.03.2014;                               |



**By December 31, 2014 the Company MB consists of 6 members.**



### **Bizhanov Dimash Nurakhmetovich**

Acting Chairman of the Management Board,  
Deputy Chairman of the Management Board

- Acting Chairman of the MB of “NC “Kazakhstan Engineering” JSC (since 20.11.2014);
- Deputy Chairman of the MB of “NC “Kazakhstan Engineering” JSC (since 27.08.2012);
- Vice-president, member of the Management Board of “NC “Kazakhstan Engineering” JSC (02.06.2011 - 27.08.2012);
- General Manager for Service Projects of “NC “KazMunaiGas” JSC ( 2010 - 2011);
- Director of Service Assets Management Department of “NC “KazMunaiGas” JSC (2010);
- Chief Manager of Department of North Caspian Project of “NC “KazMunaiGas” JSC (2009-2010).

Year of birth: 1967, Higher education

He has no shares of suppliers and competitors of the Company



### **Idrisov Yerlan Sapargalievich**

Deputy Chairman of the Management Board

- Deputy Chairman of the MB of “NC “Kazakhstan Engineering” JSC (since 29.08.2014);
- Managing Director of “NC “Kazakhstan Engineering” JSC (2011 – 29.08.2014);
- Vice President - Member of the MB of “NC “Kazakhstan Engineering” JSC (2009-2010);
- Director of Technical Policy and Innovation Department of “NC “Kazakhstan Engineering” JSC (2005-2009);
- Deputy General Director for Economics and Finance of “Tynys” JSC (2004-2005).

Year of birth: 1977; Higher education

He has no shares of suppliers and competitors of the Company



### **Muratov Yerlan Muratovich**

Deputy Chairman of the Management Board

- Deputy Chairman of the MB of “NC “Kazakhstan Engineering” JSC (since 04.11.2013);
- Chairman of the Committee of RoK Ministry of Industry and New Technologies of the Republic of Kazakhstan (2013);
- Advisor of the Deputy Prime Minister of the Minister of Industry and New Technologies concerning the industry, development of service and local content (2013);
- Committee of the state power control and supervision of RoK Ministry of Industry and New Technologies (2012);
- Off duty Advisor of the Deputy Prime Minister of the Minister of Industry and New Technologies concerning the industry, development of service and local content (2010);

Year of birth: 1976; Higher education

He has no shares of suppliers and competitors of the Company



### **Kapakov Aibek Amirbekovich**

Deputy Chairman of the Management Board

- Deputy Chairman of the MB of “NC “Kazakhstan Engineering” JSC (since 29.08.2014);
- President of “Kazsportinvest” JSC (2012-2014);
- “Executive Direction of Organizing Committee of the 7 th Winter Asian Games 2011” JSC (2009-2012);

Year of birth: 1963 r.

Higher education

He has no shares of suppliers and competitors of the Company



## **Bergenev Adylgazy Sadvokasovich**

**Managing Director, Member of the Management Board**

- Managing Director of “NC “Kazakhstan Engineering” JSC (since 17.03.2014);
  - Chief of staff of “NC “Kazakhstan Engineering” JSC (31.05.2010-16.03.2014)
  - Akim of the East Kazakhstan region (2008-2009)
- Year of birth: 1958  
Higher education  
He has no shares of suppliers and competitors of the Company

By the Decision of the Board of Directors dated March 17, 2014 (Minutes of Meeting №5) the authority of the Deputy Chairman of the Management Board Sarsembayev Adilbek Zeynullaevich was terminated in advance. Ospanov Marat Akynovich was elected as the Deputy Chairman of the Management Board of “NC Kazakhstan Engineering”.

By the Decision of the Board of Directors of “NC” Kazakhstan Engineering” JSC dated August 29, 2014 (Minutes of Meeting №9) the authorities of Ospanov Marat Akynovich and Tilebaldinov Kairat Rahatovich, the Deputy Chairmen of the Management Board were terminated in advance due to their transfer to another job. Idrissov Yerlan Sapargalievich and Kapakov Aibek Amirbekovich were appointed as Deputy Chairmen of the Management Board of “NC “Kazakhstan Engineering” JSC.

By the Decision of the Board of Directors of “NC “Kazakhstan Engineering” JSC dated November 19, 2014 (Minutes of Meeting №11) on the basis of the resignation notice, the authority of Smagulov Bolat Sovetovich, the Chairman of the Company Management Board was terminated in advance as well as labor relations from November 19, 2014. By the same decision, the Deputy Chairman of the Management Board of “NC “Kazakhstan Engineering” JSC Bizhanov Dimash Nurahmetovich was appointed as an Acting Chairman of the Management Board from November 20, 2014.

## Committees of the Management Board

Under the Company Management Board there are 3 committees and 2 commissions. These collegial bodies act and perform their duties in accordance with the Regulations regarding them. During the reporting period, committees and commissions under the Company Management Board reviewed the issues within their competence, and gave the appropriate recommendations to the Company Board.

### **Risk Committee**

The Committee is an advisory and consultative body under the Company MB and is established to pre-review and make recommendations to the Company MB for making decisions on the risk management system of the Company.

The Committee's main objectives include the followings:

1. to assist the Company Board in decision-making on the issues of risk management of the Company;
2. to organize and maintain an effective risk management system;
3. to develop processes designed to identify measure, monitor and control risks;
4. to make recommendations and proposals to control over coordination of risk management in the Company and its subsidiaries/ affiliated organizations.

### **Investment and Innovation Committee**

The Committee is a permanent collegial advisory and consultative body under the Company MB.

The main purpose of the Committee is to increase efficiency of investment and innovation activities of the Company and Organizations, as well as to form a unified policy of the Company and Organizations on the issues of Kazakhstan content development.

### **Credit Committee**

The Committee is a permanent collegial advisory and consultative body under the Company MB.

The main purpose of the Committee is to provide timely and quality decision-making on the issues related to the provision of credits (loans), financial assistance and guarantees, the Company's assets and liabilities management, minimization of risks associated with raising and investing of monetary funds, and increasing of the Company's profitability.

### **Budget commission**

The Commission is a permanent collegial advisory and consultative body under the Company MB.

The main objective of the Commission is to develop a common position of the Company representatives in the management bodies of the subsidiaries and affiliated organizations regarding the budgets submitted for approval, development plans, planning and implementation of investment projects in the framework of the relevant authorities, ensuring timely and qualitative development of the Company draft budget for the appropriate financial period and making proposals for its adjustment and implementation.

### **Commission on SDO and military-technical cooperation**

The Commission is a permanent collegial advisory and consultative body under the Company MB.

The main objective of the Commission is to develop and submit proposals to the Company MB regarding implementation of RoK military-technical policy, on the formation and implementation of

the state defense order of the Company and its subsidiaries, affiliated organizations, also improvement of scientific and production activities of the defense sector of the Company subsidiaries and affiliated organizations and the development of military -technical cooperation with foreign countries.

## Report on the activities of the Management Board

In 2014 there were held 73 meetings of the Company MB. In total there were considered 201 questions. In 2014 at the Company MB meetings special attention was paid to such issues as:

- decision-making on the questions which are within the competence of general meeting of shareholders/participants of ADS;
- approval of the documents accepted for the organization of the Company activity;
- appointment of heads of executive bodies of the affiliated organizations;
- approval and rendering assistance of implementation of strategic projects of the Company, such as «Modernization of production of “Semey Engineering” JSC, “Creation of the aero - technical center in Astana” and others.

As a whole for the reporting period the Company MB interacted with the Sole Shareholder, the Beneficial Owner, executive body and all interested parties of the corporate relations for the effective solution of the tasks set for the Company.

## Remuneration of the members of the Management Board

Rules of assessment of executives, Head of Internal Audit Service and the Corporate secretary, and employees its staff and as well remuneration to executives of “NC “Kazakhstan Engineering” JSC are developed according to RoK legislation, Policy of an assessment of the activity and remuneration of the leading and administrative workers, heads of Internal audit Service of and Corporate secretaries of “Samruk-Kazyna” JSC Company established by the Decision of the MB of “Samruk-Kazyna” JSC dated April 9, 2013 (Minutes of Meeting №17/13) and defines conditions and order of activity assessment and payment of remuneration of the mentioned employees of “NC “Kazakhstan Engineering” JSC.

Procedure of an assessment of activity efficiency of executives consists of the following stages:

- selection of motivational key performance indicators (KPI), statement of target values;
- approval of motivational KPI;
- productivity monitoring;
- calculation and statement of the actual productivity.

Motivational KPIs (KPI cards) are developed for executives by the Committee on Appointments and Remuneration of the Company Board of Directors, coordinated with them regarding an optimality of number of efficiency cards (3-7), arrangements of scales and adequacy of target values and are in accordance with the established procedure taken out by responsible division on the approval by the Company Board of Directors not later than March 31 of the reported year.

Remunerations by results of activity (short-term and long-term remunerations) are paid depending on results of work for the purpose of material encouragement for achieved success and increases of overall performance, have no constant character and aren't considered at calculation of an average salary.

The Company Board of Directors according to recommendations of Committee on Appointments and Remuneration of the Company Board of Directors has the right to make the decision on remuneration



nonpayment by results of activity at:

- 1) non-performance of threshold values of separate corporate KPI;
- 2) total productivity of performance of functional KPI - less than 50% (inclusive).

The main condition of payment of remuneration following the results of work in a year is existence of the consolidated total profit for the fiscal year, calculated taking into account the planned sum for remuneration payment.

On the results of a year the workers who have actually fulfilled in the reporting period not less than 5 (five) months have the right to remuneration, following the results of performance of the approved KPI for reported year, and also newly recruited workers for whom the KPI cards are approved till the August 1 of the reported year.

At the meeting of the Board of Directors dated July 18, 2014 (Minutes of Meeting №8) there were approved KPI cards of the Chairman and members of the Company MB for 2014.

According to The Board of Directors of the Company, dated October 28th, 2014 (Minutes № 10), it was decided to pay a remuneration to the Chairman and members of the Management Board on the results of 2013. The total number of the remuneration of the Chairman and the members of the Management Board of the Company was 119 654 (one hundred and nineteen thousand six hundred and fifty-four) tenge on the results of 2013.

According to The Board of Directors of the Company, dated 30 June 2015 (Minutes № 6) it was decided not to pay remuneration to the Chairman and members of the Management Board on the results of 2014.

## Internal control system. Risk management

The company assigns high priority to the functioning of systems of internal control and risk management, as to a key element of realization of the Company development strategy.

The main goal of the Company risk management is an achievement of effective level of risk ratio and profitability of the Company activity.

In 2014 risk management procedures proceeded to be improved. The Company Board of Directors established the Policy of risk management redrafted according to recommendations of “Samruk-Kazyna” JSC.

The Company Policy of risk management is directed on maintenance of effective structure of risk management for providing acceptable level of risks and achievement of higher results of activity, due to identification, assessment, minimization of risks and monitoring of risks.

### Internal control

Company activity within the system of internal control (SIC) is carried out according to the Provision on system of internal control of the Company, approved in the new edition in June, 2014 (the Decision of the Company Board of Directors dated July 04, 2013, Minutes of Meeting №7).

The Provision on system of internal control determines concept, the purposes and problems of system of internal control, the principles of its functioning, key areas and the main components of system of internal control, procedure of internal control at implementation of activity of the Company, competence and responsibility of subjects of internal control by execution of procedures of internal control and an assessment of system of internal control in the Company.

Responsibility of the Board of Directors for the organization of system of internal control in the Companies, and responsibility of MB – for effective functioning of SIC is enshrined in the Provision on system of internal

control. Thus the Service of internal audit of the Company acts as part of continuous monitoring of system of internal control of the Company and directly estimates system of internal control regarding its compliance to goals, tasks and the set criteria and provides recommendations about improvement of system of internal control.

According to the Provision on system of internal control there is provided the division which tasks include the organization of functioning and improvement of system of internal control, including:

- organization of functioning and improvement of system of internal control;
- ensuring informing of the Company Board of Directors about a condition of system of internal control in the Company and in group of the Company, and also about essential deviations in processes of system of internal control;
- rendering the methodical and practical help with the organization of system of internal control, and also of implementation of monitoring of system effectiveness of internal control in the affiliated organizations of the Company;

The company took measures for the adoption of provision on system of internal control in the affiliated organizations.

The service of internal audit in 2014 carried out an assessment of internal control system effectiveness.

An audit was carried out according to requirements of "Methods of assessment of system effectiveness of internal control of the subsidiaries and affiliated organizations of "Samruk-Kazyna" JSC (hereinafter - the Methods). Based on the results of SIC assessment 22 recommendations have been issued on improvement of system of internal control in the Company.

Besides, the service of internal audit of the Company carries out an assessment of system of internal control in the course of audit of separate business processes.

Within improvement of the internal control system of Society, for the purpose of elimination of the discrepancies revealed by Service of internal audit during carrying out an assessment of internal control system, the Company developed the Action Plan for improvement of the Company system of internal control for 2013-2014 - plan of corrective actions (hereinafter – the Plan), approved by the Audit Committee of the Company Board of Directors dated September 7, 2013.

In accordance with the Plan during the reported year all the activities have been performed. Based on the results of assessment of internal control system effectiveness in 2014 there was developed the Plan for improvement of internal control system for 2015 approved by the Board of Directors on March 31, 2015 №3. As part of the mentioned Plan 3 events were organized. Implementation of the remaining actions is planned for 2015.

### **Risk management**

The main objective of the Company risk management is an achievement of a good level of risk ratio and profitability of the Company activity.

In 2014 the Company continues to pay much attention to risk management improvement as to a key element of realization of strategy of development of the Company. The company approved the Technique of the accounting of the realized risks, changes are made to risk management Policy, the Provision on Committee on risks. Also the card of risks for 2014, the Risks Register for 2014 and the Action Plan for management of critical risks for 2014, the Matrix of risks and controls for 2014, key risk indicators and level of tolerance per each risk for 2014, retaining power and risk appetite were approved. The Company Management Board on a quarterly basis informs the Company Board of Directors on risks activities.

The Risks Committee functioning under the Company MB in 2014 held 18 meetings at which 31 issues were considered.

The Company MB quarterly hears the report on activity of the Risks Committee.

Today the uniform practice of a risk management assuming management of financial risks (including credit, market, currency risks, risks of liquidity and percentage risks) and operational risks is applied to all processes in the Company.

The management of financial risks assumes definition of limits of risk and control of that the risk of potential losses wasn't beyond such limits. Management of operational risks consists in providing appropriate functioning of internal processes and procedures for minimization of susceptibility of the Company to other internal and external risk factors.

The management of financial risks as a key component of a corporate management system of the Company and its affiliated organizations is directed on timely identification and acceptance of administrative measures for decrease in level of risks which can negatively influence the cost and reputation of the Company and the enterprises of group of the Company.

### **Risks of the Company in 2014, measures for their mitigation**

In 2014 in the Risks Register of the Company 46 most significant risks, according to the long-term and medium-term goals of the Company are identified.

Thus to critical risks are referred:

1. risk of technological backwardness and low competitiveness of manufactured products;
2. foreign currency risks;
3. risk of non-compliance with the Law on labor conditions;
4. risk of failure to execute SDO contracts;
5. risk of non-repayment of borrowings by subsidiaries and affiliated organizations, given by the Company;
6. risk of increased cost of the investment project and out-of-time commissioning;
7. credit risks

### **Managing risks of technological backwardness and low competitiveness of manufactured products.**

There is functioning Investment and Innovation Committee that meets on a regular basis to discuss new and ongoing investment projects. As well there was formed Department of innovative development and investment that monitors the implementation of investment projects of the Company, information on monitoring results is considered at a meeting of the Management Board and the Board of Directors of the Company.

Investment projects are examined and considered at Investment and Innovation Committee of the Company. In 2014, Innovation and Investment Committee held 13 meetings which include the following issues:

- appointment of managers for investment, innovative projects;
- monitoring report for the project "Establishment of Aviation and Technology Center in Astana";
- monitoring report for the project "Establishment of Center of Electric-Optical Devices Manufacture on the territory of the Republic of Kazakhstan";
- approval of investment projects:
  - "The development of foundry production on gasified models" at "Tynys" JSC;
  - "The production of nonwoven fabrics (geotextiles)" on the basis of "Tynys" JSC;
  - "Production of gas masks" at "Tynys" JSC;
  - "Establishment of Center of Electric-Optical Devices Manufacture on the territory of the Republic of Kazakhstan" ("Kazakhstan Aselsan Engineering" LLP;
  - "Upgrading of "Plant named after S.N.Kirov"
- consideration of draft regulations on the fund financing the research and development activities of "NC

“Kazakhstan Engineering” JSC.

With aim to manage currency risks of the Company at attraction of the eurobonds stated above the Company uses natural hedging - structural balancing of assets and liabilities with the purpose to block losses from change of an exchange rate by the profit got from the same change on other positions of balance.

Negotiations with major customers (“NC “KazMunaiGas” JSC, “NC “Kazakhstan Temir Zholy” JSC, “Samruk Energo” JSC), security agencies of the Republic of Kazakhstan were carried out to increase the volume of orders and selling prices due to the devaluation, work on expansion of market sales is ongoing.

Pricing agreements with the sales were re-reviewed with consideration of adjustments made in exchange rates; treasury operations were introduced (currency trading and corporate dealing) that enables to make the conversion at market price.

**Risk management of non-compliance with working conditions.**

This risk is operational risk and characterizes approach of occupational accidents. Possible emergence of this risk is caused by such factors as errors of the personnel on observance of requirements of safety measures, lack of mechanisms of updating of knowledge of workers on an applicable law on a constant basis, non-compliance with the legislation of the Republic of Kazakhstan in the course of activity implementation.

For prevention of occupational accidents divisions on safety and labor protection in the organizations of group of the Company function, schedules of training and carrying out instructing of the personnel are approved.

In 2014 there was approved the Regulation on the procedure of training, instruction and testing for health and safety and establishment of the examination committee. Employees of the Company and subsidiaries of the Group of Companies are trained on the permanent basis on “Safety and Health” topic and toolbox talks are done at the workplace.

In order to manage the risk of non-repayment of SDC borrowings given by the Company there is carried out monitoring of targeted use of credit, monitoring reports on a regular basis are considered at a meeting of the Credit Committee of the Company’s Management Board.

**Risk management of investment projects** (design risks, lack of positive expertise, selection of the wrong project, failure to provide a sufficient level of financing for innovative project, project cost and untimely commissioning). The possible occurrence of these risks is due to such factors as unfounded prioritization of economic and market strategy, as well as the relevant priorities of the various types of innovation that can contribute to achieving the Company’s goals, bad and untimely preparation of financial and economic feasibility study of the project.

In order to reduce the risk of investment projects in the Company’s there functions Investment and Innovation Committee that meets on a regular basis to discuss new and ongoing investment projects. There was also formed the Department of innovative development and investment that monitors the implementation of the Company investment projects, information on the monitoring results then considered at a meeting of the Management Board and the Board of Directors, strategic partners with international best practices in implementation of similar products are attracted. Previously the needs of potential buyers are studied, the procedure of products examination from potential customers is carried out and appropriate memoranda and contracts of intent with potential customers are signed. Monitoring of investment projects implementation is conducted. Semiannual monitoring results are discussed at a meeting of the Board of Directors of the Company.

## Sustainable development Corporate social responsibility of the Company

Growth of long-term cost of the Company and its assets is impossible without interests of all interested parties, including interests of society. According to the Strategy of development 2013-2022, the Company seeks to become the exemplary employer and the leader in the field of safety of production and environment protection.

In this regard, for realization of this direction of development, the Company sets the purpose to raise standards of social responsibility in the Company enterprises through:

- 1) Regulation of the social and labor relations on the basis of the principle of social partnership.
- 2) Formation of system of training.
- 3) Transition to “green” economy.

The Decision of the Board of Directors dated November 28, 2013 approved the Policy in the field of corporate social responsibility of the Company and its affiliated organizations.

For providing a sustainable development the special attention will be paid to the following priority directions in the field of corporate social responsibility:

- 1) effective regulation of the social and labor relations on the basis of the principle of social partnership;
- 2) formation of effective system of training and development of personnel;
- 3) ensuring ecological stability and safety at production;
- 4) definition, development and deployment of uniform policy in the field of implementation of social projects;
- 5) creation of uniform communication strategy.

In the activity the group of the Company realizes and assumes responsibility before all interested parties (internal and external), including:

- 1) employees of the Company and its affiliated organizations;
- 2) the company in front of the subsidiaries and affiliated organizations of the Company;
- 3) investors, suppliers and consumers of goods, works and services;
- 4) government bodies;
- 5) non-profit organizations and other legal entities;
- 6) local communities.

Process of the organization of interaction of the Company and its affiliated organizations with interested parties is based on the principles of respect of the rights of all interested parties.

Activity of group of the Company in the field of CSR has to promote the solution of the following tasks:

- 1) development of own personnel will allow not only to avoid turnover of staff, but also to involve the best experts in the market;
- 2) growth of labor efficiency;
- 3) image improvement, growth of reputation;
- 4) possibility of attraction of the investment capital on profitable terms;
- 5) effective management of the risks arising in the course of interaction with interested parties;
- 6) preservation of social stability in society in general;
- 7) stable and sustainable development of group of the Company in long term prospect.



Within realization of corporate social responsibility of the Company in 2014 the following work is carried out.

On a permanent basis monitoring of the social and labor conflicts, introduction and promotion in group of the Company of instruments of mediation is carried out.

In April, 2015 the Report on results of definition of a rating of social stability of the Company for 2014 was submitted. 9 affiliated organizations of the Company which included a complex assessment of social mood of the production personnel and social development took part in research. The index of social stability of the Company made 72% and on the accepted rating scale value of an index of social moods of 63%, and an index of social development of 90% is estimated as above an average. On an index of an involvement and entering its part indicators of satisfaction with labor conditions and loyalty of the Company is in a stability zone.

Research of an involvement of the administrative and managerial personnel of the Company is also conducted (research is conducted by PU (Private University) of “Samruk-Kazyna” corporate management”. Research objective is an assessment of social well-being in labor collective. Research problem was definition of degree of an involvement of the personnel through the integrated index of an involvement consisting of three key blocks: satisfaction of the personnel, loyalty of the personnel to the Company and initiative supports by the personnel. As showed results of research, the index of an involvement in the Company is in a zone of stability and makes 63%.

## The organization of social partnership in subsidiaries and affiliated organizations of the Company

In March, 2014 the tripartite Industry agreement in mechanical engineering branch between RoK Ministry of Industry and New Technologies, the Company and public association “Labor Union of RoK Workers of Mechanical Engineering” and RoK National Chamber of Entrepreneurs.

This agreement is directed on the solution of the following main objectives:

- establishment of stable work for mechanical engineering enterprises;
- creation of conditions for productive work, increase of life level of mechanical engineering workers, careers enhancement and workers training;
- definition of the minimum industry standard of salary for workers of mechanical engineering enterprises and compensation payment, definition of measures for protection of legitimate rights and interests of workers;
- development of social partnership on the basis of mutual trust, exchange of information and cooperation;

Branches of Public association “Labor Union of RoK Workers of Mechanical Engineering” - primary labor-union organizations work in the following Company and affiliated organizations:

“Petropavlovsk Plant of Heavy Mechanical Engineering” JSC, “Plant named after S. M. Kirov” JSC, “Munaymash” JSC, “Semipalatinsk Engineering Plant” JSC, “Semey Engineering” JSC, “SRI “Gidropribor” JSC, “Instrument Manufacture Plant “Omega” JSC, “Ural Plant “Zenit” JSC, “Car Repair Plant 811 KE” JSC, “Tynys” JSC.

The number of workers at these enterprises is over 4 thousand people, membership in labor union makes more 75%.

Primary Labor Union organizations act under the Provision on branch of Public association “Labor Union of RoK Workers of Mechanical Engineering”. The Head of primary Labor Union organizations are

the chairmen of Labor Union committees elected by members of Labor Union and on the basis of the power of attorney of Public association "Labor Union of RoK Workers of Mechanical Engineering".

For the implementation of sectoral agreements there have been concluded collective agreements between employers and employees of these organizations for 2014- 2016.

Control over the implementation of conditions of the collective agreement is exercised by constantly operating collective agreement commission consisting of equal number of representatives of the Employer and the representative of workers. The parties annually report on implementation of the taken obligations at meeting (conference) of workers.

## Sponsor and charitable help

Within realization of this direction in 2014 the total consolidated volume of sponsorship and charity was 62 665 800 tenge including:

- the sponsor's help for support of separate sports for the sum of 54 000 000 tenge including - OS "Mini football club "SKA-South";
- the charitable help for the sum of 8 665 800 tenge including – under article of support to pensioners who are on file in the Organization, and veterans of the Second World War and the persons equated to them and also other social projects.

## Development of the Company personnel and professional training

One of the key factors of success in group of the Company is personnel potential. The effective organizational structure is created for more successful management and development of human resources

Selection of the specialists conforming to qualification requirements and possessing necessary knowledge, skills, business and personal qualities is carried out in due time and systemically.

Within motivation and encouragement of workers on a constant basis work on attraction and deduction of highly effective workers, and also increases of level of knowledge and skills of workers is carried out.

Personnel policy is focused on effective personnel maintenance of realization of the Company Development Strategy for 2013-2014 with the strong corporate culture, providing uniform approaches in work with the personnel within the best corporate practice in the Company and affiliated organizations.

Main objective of Personnel policy is increase of management efficiency by the personnel by a way of creation of a control system by human resources of the Company directed on receiving the maximum profit and ensuring leadership in the competitive environment, based on economic incentives both social guarantees, and promoting a harmonious combination of interests, both the employer, and the worker and to development of their relations for the Company benefit.

The personnel management system has to be based on rational and reasonable planning of human resources, use of modern HR technologies and the effective motivational mechanisms, allowing to provide effective production and to solve strategic problems at high professional level.

The main conceptual objectives on realization of Personnel policy consist in the following:

- ensuring realization of personnel policy in a uniform format within the Company and affiliated organizations;
- further promotion of the project on development and deployment of professional standards which

establish requirements to the contents and working conditions, to qualification and competences of workers on various qualification levels;

- further development of complex system of planning of personnel resources taking into account requirement of the business directions, their rational placement and effective use;

- increase of workers skills of all levels of management on the basis of development of corporate system of continuous education, improvement of system of corporate training on the basis of professional standards;

- compliance of compensation system with complexity and level of performed works;

- ensuring social protection and increase of working conditions of workers.

Implementation of the tasks has to provide optimum balance of processes of updating and reduction of quantitative and qualitative structure of compliance with requirements of business and requirements of the current legislation and a condition of labor market.

Within development of dual system of training and accepted training plans, suggestions were collected across the Company and affiliated organizations, all suggestions were considered during development of Action Plan for 2014 on implementation of the Company Personnel policy for 2013-2022.

Issues of dual training system were developed in the framework of the signed agreements and memorandums of cooperation, the Joint Action Plans for the implementation of elements of the dual training system with the basic colleges of regions and "Kasipkor" JSC, on establishment of one universal educational and production platform for enterprises in regions. Subsidiaries of the Company participated in the evaluation and development of professional standards and training programs developed by RoK Ministries and "Kasipkor" JSC.

Employees of the Administrative Department of the Company passed training on 21-22 April 2014 at the training seminar organized by a private university «Corporate Governance of "Samruk-Kazyna" on the topic "The dual system of occupational education: mentoring and professional support". In October 2014 for the Company HR personnel and HR employees of the Company's subsidiaries and affiliated organizations there was arranged a seminar on "Dual education system".

As part of the Company personnel policy there was developed and approved by the Decision of the Company Board, the Plan of training and professional development of the Company employees for 2014.

Organization of training and retraining of the Company employees was carried out in accordance with the Plan of training and professional development of the Company employees for 2014.

During the reporting period 47 employees have been trained and improved their skills.

The company has developed a training plan for 2015. However, subsidiaries as far as possible planned funds for 2015 for routine training. Certain subsidiaries of the Company will forward workers for foreign training, it is planned to train for the second related professions, to implement measures to improve the skills of workers and technical employees. The planned training in several cases includes internship, initial assessment of knowledge and work under mentor's supervision.



## Occupational health and safety. Environment protection

The company carries out system measures for increase of safety of work on production. The enterprises of the Company fulfill the assumed obligations, including:

- ensuring normal temperature on workplaces during the autumn and winter period. Actions for preparation of shops and departments by autumn winter period according to the plan schedule are carried out by October 1 annually;
- ensuring sufficient illumination of workplaces;
- analysis of the reasons of operational injuries and taking measures to its prevention;
- carrying out routine medical examinations;
- delivery to employees of subsidiaries of special clothes, footwear, personal protective equipment;
- delivery of milk and other foodstuff on established norms on the workplaces connected with harmful working conditions;
- insurance of responsibility for the harm done to life and health of workers at execution by them of labor duties;
- continuous control of observance of requirements of labor protection;
- providing workshops, first-aid post necessary medicines for rendering the emergency help to employees of plant;
- quarterly inventory of sources of environmental pollution and taking measures to improvement of an ecological situation.

### Environment protection

The subsidiaries of the Company carry out work on development of plans of their modernization for development of new types of production, increase in productivity, diversification of production, increase of energy efficiency, energy saving development.

In the reporting period, there were not registered any industrial accidents or incidents. The Company will take all necessary precautionary measures to prevent such situations in the future.



## The main objectives on ensuring ecological stability and safety are:

- respect for the environment;
- creation of a favorable, healthy and safe situation for workers, to injury prevention and diseases;
- observance of norms and standards in the field of labor protection and production safety;
- increase of energy efficiency of activity;
- introduction of reporting system.

Ecological stability is reached by means of investment in improvement of ecological characteristics of business.

The company seeks for observance of the principles of maximum environment respect and rational use of natural resources, promotes the prevention of environment negative impact, undertakes the initiatives directed on increase of responsibility for a state of environment, promotes development and distribution of environmentally friendly and energy saving technologies, carrying out environmental monitoring and open providing of ecological information.

The system of ecological management includes:

- a) collecting and an assessment of the adequate and timely information concerning consequences of their activity for environment, health and safety;
- b) establishment of the measurable purposes on improvement of ecological indicators and rational use of resources;
- c) regular monitoring and check of progress on achievement of the objectives on environment protection, health and safety.

The special attention will be paid to energy efficiency increase, resource-saving and use of alternative energy sources at the enterprises of the Company, to increase of culture of safe behavior of the personnel and observance of safety measures on production.







## ACTIVITIES OF THE KEY SUBSIDIARIES AND AFFILIATED ORGANIZATIONS



## “Tynys” JSC

“Tynys” JSC, earlier known as plant of the Oxygen and respiratory equipment, was founded in 1959. It is the only enterprise (tracing copyright holder) for release of 45 names of the aviation products which have been earlier developed by the Design Offices (DO) of Modular plant “Nauka” Moscow, mechanical engineering plant “Zvezda” of the city of Tomilino, DO of mechanical engineering plant named after A.I.Mikoyan in Moscow.

Following the results of 2005 the enterprise is awarded awards of the Government of the Republic of Kazakhstan “For achievements in the field of quality”.

Main types of manufactured products:

- life support equipment for the aircraft equipment and means of aviation automatic equipment;
- aviation products for civil and military planes and helicopters of the brands AN, IL, TU, YAK, BE SU, MIG, MI, KA, Ansat;
- polyethylene pipes and fitting and another.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income - IN<br>TOTAL<br>(thousand<br>tenge) | including   | Total profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand tenge/pers. |
|-----------|-------------------------------|---|---|-------------------------------------|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand<br>tenge) |                                     |   |
| 2011 fact | 3 631 138                     | 4 033 967                                   | 3 809 073   | 657 497                             | 6 012                                     |
| 2012 fact | 4 652 426                     | 4 823 054                                   | 4 660 940   | 658 668                             | 7 202                                     |
| 2013 fact | 5 583 012                     | 5 839 329                                   | 5 771 931   | 528 255                             | 8 198                                     |
| 2014 fact | 6 673 160                     | 6 785 308                                   | 6 671 712   | 688 691                             | 8 278                                     |

## “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC

“Petropavlovsk Plant of Heavy Mechanical Engineering” JSC - the enterprise which is the leading Kazakhstan producer of the oil and gas, power and railway equipment and having versatile capacities with existence of all technological repartitions necessary for release of this production in mechanical engineering. In 2011 the “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC celebrated 50-year anniversary of release of the first product.

During 30 years the “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC was included into the Ministry of the Defensive Industry of USSR.

As a part of the “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC there are 19 production workshops and sites in which about 2000 units of processing equipment are involved, there is a design-technology center in which more than hundred qualified engineers and designers work. More than 40 types of the petrochemical equipment, and also gamma production for power and chemical complexes are developed and put on production of 11 products of the oil-extracting equipment.

At the “Petropavlovsk Plant of Heavy Mechanical Engineering” JSC there is the oil and gas equipment, equipment for the oil and gas processing, power and chemical production, the railway equipment special production is arranged. There are all necessary licenses and certificates for the organization of production.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income - IN<br>TOTAL | including   | Total profit<br>(thousand<br>tenge) | Labor<br>efficiency,<br>thousand<br>tenge/pers. |
|-----------|-------------------------------|----------------------|---|-------------------------------------|---|
|           |                               |                      | income from<br>production<br>realization<br>(thousand<br>tenge) |                                     |   |
| 2011 fact | 3 005 700                     | 2 819 740            | 2 774 172   | 2 153                               | 2 602   |
| 2012 fact | 5 108 200                     | 5 737 000            | 5 670 365   | 229 425                             | 4 493   |
| 2013 fact | 5 570 012                     | 5 674 835            | 5 597 850   | 326 671                             | 4 843   |
| 2014 fact | 4 400 002                     | 4 093 534            | 4 015 158   | 136 408                             | 3 721   |

### “Ural Plant “Zenit” JSC

“Ural plant “Zenit” JSC is founded on the basis of the plant “Dvigatel” evacuated in 1941 from Leningrad. During the war the Plant released special naval arms. For merits in providing army and fleet in days of the Great Patriotic War, the plant, only among the enterprises of Kazakhstan, was awarded with the order of Patriotic war of 1 degree.

Primary activity of “Ural plant “Zenit” JSC is construction of boats and ships in which the plant is engaged since 1993 that served as the origin beginning in the Republic of Kazakhstan to new branch of the industry - shipbuilding. It became possible thanks to existence at plant of the corresponding technical and production capabilities, intellectual and personnel potential. During this time the mass production of boats and ships with the displacement up to 240 tons is mastered.

Its products:

- Shipbuilding
- Products for oil and gas complex
- Other civil production.

It is also in the long term planned to let out specialized sea vessels with a dry weight up to 600 tons (multipurpose support vessels, floating laboratories, tows with a small deposits, vessels of delivery of rotational change, search and rescue and fire vessels).

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income - IN<br>TOTAL<br>(thousand<br>tenge) | including   | Total profit<br>(thousand<br>tenge) | Labor<br>efficiency,<br>thousand<br>tenge/pers. |
|-----------|-------------------------------|---|---|-------------------------------------|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand<br>tenge) |                                     |   |
| 2011 fact | 2 984 010                     | 1 145 419                                   | 1 087 494   | 66 745                              | 3 323   |
| 2012 fact | 4 682 732                     | 6 758 734                                   | 6 741 681   | 549 164                             | 5 135   |
| 2013 fact | 5 223 529                     | 5 243 294                                   | 5 224 778   | 332 406                             | 5 528   |
| 2014 fact | 5 292 991                     | 5 336 215                                   | 5 281 358   | 317 725                             | 5 822   |

## “Munaimash” JSC

“Munaimash” JSC was formed on the basis of the Taganrog plant “Red Hydropress” evacuated in Petropavlovsk in November, 1941.

“Munaimash” JSC specializes on output of an oil and gas complex. Production is made on original technology and possesses high precision, anticorrosive stability by the hostile liquid and gas environment, the increased wear resistance. By operational technical characteristics pumps are at the level of the best world samples. Production intended to production, is developed taking into account requirements of the oil-extracting enterprises developed in use, analog products and can be finished taking into account requirements of the customer.

Within implementation of the investment project “Modernization of Machining Production of Products of Oil Industry” as investments funds in the form of the state support are raised: long-term leasing financing by means of participation in the program “Productivity 2020”.

Large-scale modernization is carried out, the latest metalworking equipment of production «Nakamura Tomi» (Japan) is introduced and the automated control system for design and the production, conforming to the highest international standards is created.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including                                | Total profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand<br>tenge/pers. |
|-----------|-------------------------------|---|--|-------------------------------------|--|
|           |                               |   | income from<br>production<br>realization |                                     |  |
| 2011 fact | 1 959 789                     | 2 563 343                                   | 1 950 651                                | 213 462                             | 14 410                                       |
| 2012 fact | 1 685 834                     | 2 407 746                                   | 1 669 931                                | 80 877                              | 12 925                                       |
| 2013 fact | 2 357 027                     | 3 213 835                                   | 3 174 628                                | 183 740                             | 15 109                                       |
| 2014 fact | 2 790 259                     | 3 472 059                                   | 3 193 291                                | 210 307                             | 20 210                                       |

## “KazEng Electronics” JSC

“KazEngElectronics” JSC (earlier - RoK National Center for Radio Electronics and Communication) was formed in 1994 on the basis of a scientific and technical complex of the range of “Sary-Shagan”, the enterprises and the organizations of a radio engineering profile.

Primary activities of the enterprise are modernization and capital repairs of arms, military and special equipment, production of modern means of communication and radio electronics products, assembly production of the computer equipment.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output (thousand tenge) | Income - IN TOTAL (thousand tenge) | including   | Total profit (thousand tenge) | Labor efficiency, thousand tenge/pers. |
|-----------|-------------------------|------------------------------------|---|-------------------------------|--|
|           |                         |                                    | income from production realization (thousand tenge) |                               |  |
| 2011 fact | 435 310                 | 435 311                            | 435 311   | 9 423                         | 4 784                                  |
| 2012 fact | 2 447 489               | 2 326 995                          | 2 326 242   | 5 172                         | 24 974                                 |
| 2013 fact | 1 789 390               | 1 842 440                          | 1 789 391   | 5 451                         | 12 601                                 |
| 2014 fact | 643 116                 | 689 187                            | 643 117   | 9 830                         | 8 462                                  |

### **“Plant named after S.M. Kirov” JSC**

“Plant named after S.M. Kirov” JSC was founded in 1928 with specialization of production of radio equipment. In 1941 the Plant was evacuated to the city of Petropavlovsk.

Primary activity of the “Plant named after S.M. Kirov” JSC is design and production, installation, commissioning, service and repair of means of communication, railway automatic equipment, safety systems for needs of RoK Ministry of Defense, railway transport, an oil and gas complex, technical means for digital television and special means.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output (thousand tenge) | Income - IN TOTAL (thousand tenge) | including   | Total profit (thousand tenge) | Labor efficiency, thousand tenge/pers. |
|-----------|-------------------------|------------------------------------|---|-------------------------------|--|
|           |                         |                                    | income from production realization (thousand tenge) |                               |  |
| 2011 fact | 5 510 811               | 5 536 004                          | 5 524 532   | 288 473                       | 10 149                                 |
| 2012 fact | 6 504 981               | 6 166 916                          | 6 114 875   | 329 317                       | 10 164                                 |
| 2013 fact | 8 520 237               | 8 295 669                          | 8 249 825   | 473 577                       | 12 456                                 |
| 2014 fact | 6 709 207               | 6 987 225                          | 6 944 772   | 405 708                       | 11 292                                 |

### **“Mechanical Engineering Plant named after S.M. Kirov” JSC**

“Mechanical Engineering Plant named after S.M. Kirov” JSC was founded in 1942 on the basis of the plant #182 evacuated from under Makhachkala (nowadays “Dagdiesel” plant).

At “Mechanical Engineering Plant named after S.M. Kirov” JSC production of the sea underwater weapon, products of ship hydraulics, ship systems of automatic control by process of burning of coppers, spare parts for the railroad, products for the mining industry and an oil and gas complex is arranged.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.



| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including  | Total<br>profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand tenge/<br>pers. |
|-----------|-------------------------------|---|--|--|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand tenge) |  |   |
| 2011 fact | 827 864                       | 1 266 302                                   | 853 803  | 12 910                                 | 2 208   |
| 2012 fact | 740 750                       | 747 057                                     | 564 964  | (311 192)                              | 2 218   |
| 2013 fact | 527 526                       | 881 798                                     | 806 097  | (333 204)                              | 1 570   |
| 2014 fact | 527 556                       | 651 474                                     | 482 234  | (433 981)                              | 1 899   |

### **“SRI “Gidropribor” JSC**

“Scientific Research Institute “Gidropribor” JSC was founded in the city Uralsk in 1972 on the basis of special design bureau of Engineering plant named after K.E. Voroshilov, as the Ural branch of the Leningrad Central Research institute “Gidropribor” of the Ministry of the ship-building industry of USSR for researches, development and production of robotic means of underwater application for carrying out search, rescue and special underwater and technical works.

Now the main activities of SRI “Gidropribor” JSC are concentrated on researches, design, production and engineering in the field of shipbuilding, a mobile robotics, and also on production of the equipment for oil and gas sector.

For performance of these works at SRI “Gidropribor” JSC there are all necessary licenses and certificates for the organization of production.

In 2012 SRI “Gidropribor” JSC passed accreditation in the Ministry of Education and Science of the Republic of Kazakhstan and received the Certificate as the subject of scientific and (or) scientific - technical activity.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including  | Total<br>profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand<br>tenge/pers. |
|-----------|-------------------------------|---|--|--|--|
|           |                               |   | income from<br>production<br>realization<br>(thousand tenge) |  |  |
| 2011 fact | 301 650                       | 306 011                                     | 301 650  | 8 676                                  | 2 556  |
| 2012 fact | 377 756                       | 381 603                                     | 377 756  | 4 503                                  | 2 974  |
| 2013 fact | 472 646                       | 476 398                                     | 472 646  | 18 385                                 | 3 376  |
| 2014 fact | 638 546                       | 636 307                                     | 612 547  | 33 055                                 | 4 641  |

## “Car Repair Plant 811 KE” JSC

“Car repair plant 811 KE” JSC was founded in Ereymentau on July 1, 1976, for ensuring the capital and regulated repair of automotive vehicles of the Turkestan and West Siberian military districts of the USSR.

During activity of more than 30 years “Car repair plant 811 KE” JSC saved up a wide experience in the sphere of repair and equipment re-equipment. Production of plant deserved good reputation.

The main activities are capital repairs, modernization, re-equipment and service of cargo automotive vehicles of all modifications.

The “Car repair plant 811 KE” JSC specializes on capital repairs, modernization, re-equipment and service of cargo automotive vehicles of all modifications.

There are all necessary licenses and certificates.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including:   | Total<br>profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand tenge/<br>pers. |
|-----------|-------------------------------|---|--|--|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand tenge) |  |   |
| 2011 fact | 610 756                       | 615 739                                     | 610 245  | 68 709                                 | 4 662   |
| 2012 fact | 399 874                       | 402 402                                     | 399 604  | 2 148                                  | 3 278   |
| 2013 fact | 394 544                       | 399 169                                     | 394 387  | 11 209                                 | 2 989   |
| 2014 fact | 469 003                       | 478 540                                     | 468 783  | 41 748                                 | 4 223   |

## “Semipalatinsk Engineering Plant” JSC

“Semipalatinsk Engineering Plant” JSC was founded in 1969 as branch of Rubtsovsk Mechanical Engineering Plant (RMEP) according to the order of the Ministry of the defensive industry of USSR.

Capacities of the “Semipalatinsk Engineering Plant” JSC are focused on release of caterpillar equipment of high passability and spare parts to it, completing to railway transport, and also production of the general mechanical engineering.

At the “Semipalatinsk Engineering Plant” JSC production of the caterpillar conveyor tractor CC-T and spare parts to it, accessories of a rolling stock of railway transport, production of the general mechanical engineering is arranged.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including:   | Total<br>profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand tenge/<br>pers. |
|-----------|-------------------------------|---|--|--|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand tenge) |  |   |
| 2011 fact | 636 876                       | 493 326                                     | 478 738  | 7 220                                  | 4 163   |
| 2012 fact | 1 466 020                     | 1 815 813                                   | 1 807 056  | 182 961                                | 10 445  |
| 2013 fact | 1 898 148                     | 856 322                                     | 843 963  | 6 870                                  | 8 628   |
| 2014 fact | 1 910 772                     | 1 247 838                                   | 1 206 519  | 73 184                                 | 4 826   |

### “Semey Engineering” JSC

“Semey Engineering” JSC was formed by reorganization of Republican State Enterprise) “Armored Repair Plant” founded on July 2, 1976.

It is the only specialized enterprise in the Central Asian region, performing works and services in capital repairs and modernization of armored equipment.

“Semey Engineering” JSC specializes on capital repairs and modernization of arms and military equipment and production of conversion equipment.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output<br>(thousand<br>tenge) | Income -<br>IN TOTAL<br>(thousand<br>tenge) | including:   | Total profit<br>(thousand<br>tenge) | Labor efficiency,<br>thousand tenge/<br>pers. |
|-----------|-------------------------------|---|--|-------------------------------------|---|
|           |                               |   | income from<br>production<br>realization<br>(thousand tenge) |                                     |   |
| 2011 fact | 1 526 311                     | 1 727 368                                   | 1 708 154  | 435 818                             | 9 140   |
| 2012 fact | 6 017 757                     | 6 101 937                                   | 6 031 823  | 489 424                             | 11 506  |
| 2013 fact | 6 422 978                     | 7 096 793                                   | 6 535 300  | 1 307 857                           | 15 666  |
| 2014 fact | 10 327 545                    | 8 800 098                                   | 8 559 325  | 2 105 387                           | 13 586  |

### “Instrument-making Plant “Omega” JSC

“Instrument-making plant “Omega” JSC was founded in 1972 and was a part of the Ministry of the ship-building industry of USSR, specialized in area of production of systems and complexes for control of ship mechanisms, the equipment of intra ship communication, products of exact mechanics of ship instrument making.

At “Instrument-making plant “Omega” JSC the following types of production is adjusted:

- the procuring
- the tool
- the metalworking

- the installation and assembly
- production of plastic and rubber products
- production of installations for production of drinking water.

Production and delivery of the wide nomenclature of spare parts for a rolling stock of the Kazakhstan railroad, details and knots for a rolling stock are organized.

“Instrument-making plant “Omega” JSC specializes on production of the railway equipment, details and knots for the rolling stock, special production and production of a dual purpose, agrarian and industrial complex production.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

| Name      | Output (thousand tenge) | Income - IN TOTAL (thousand tenge) | including:  | Total profit (thousand tenge) | Labor efficiency, thousand tenge/ pers. |
|-----------|-------------------------|------------------------------------|---|-------------------------------|---|
|           |                         |                                    | income from production realization (thousand tenge) |                               |   |
| 2011 fact | 482 817                 | 547 499                            | 515 920   | 18 341                        | 2 962                                   |
| 2012 fact | 628 326                 | 1 044 596                          | 624 921   | 237 924                       | 3 510                                   |
| 2013 fact | 615 118                 | 644 136                            | 617 760   | 1 795                         | 2 674                                   |
| 2014 fact | 278 407                 | 253 100                            | 230 614   | (91 420)                      | 1 281                                   |

### “SRI “Kazakhstan Engineering” LLP

“Uniform Center of Introduction of System of Management of Arms” LTD was transformed to the “Scientific Research Institute” Kazakhstan Engineering” LTD and accredited as the subject of scientific and scientific-technical activity; licenses for carrying out development and production, repair of ammunition, arms and military equipment, spare parts, components and devices to them are obtained; special materials, the equipment for their production, including installation, adjustment, modernization, installation, storage, repair and service.

Due to the extensive market and increase in demand the decision on development of the engineering direction in the format of EPC (M) contracts is made and it includes:

- development of the sphere of engineering services in internal market, with an export orientation;
- introduction (development and transfer) of new technologies;
- improvement of quality of services in the engineering sphere;
- development of own production potential.

| Name      | Output (thousand tenge) | Income - IN TOTAL (thousand tenge) | including:  | Total profit (thousand tenge) | Labor efficiency, thousand tenge/ pers. |
|-----------|-------------------------|------------------------------------|---|-------------------------------|---|
|           |                         |                                    | income from production realization (thousand tenge) |                               |   |
| 2012 fact | 153 036                 | 153 335                            | 149 501   | (1 335)                       | 4 372                                   |
| 2013 fact | 234 692                 | 237 271                            | 234 857   | (36 340)                      | 3 353                                   |
| 2014 fact | 148 404                 | 150 520                            | 148 404   | (70 520)                      | 4 497                                   |

## “Kazakhstan Aviation Industry” LLP

“Kazakhstan aviation industry” LTD was formed in 2012 for implementation of the project which is carried out in the following directions:

- service and assembly of a model range of planes of the company “Cessna Aircraft Company”;
- maintenance and repair of helicopters of Russian production;
- maintenance and repair of planes of front aircraft;
- service of planes of military transport aircraft.

| Name      | Output (thousand tenge) | Income - IN TOTAL (thousand tenge) | including:  | Total profit (thousand tenge) | Labor efficiency, thousand tenge/ pers. |
|-----------|-------------------------|------------------------------------|---|-------------------------------|---|
|           |                         |                                    | income from production realization (thousand tenge) |                               |   |
| 2013 fact | -                       | 517                                | -   | (49 609)                      | -                                       |
| 2014 fact | -                       | 140 814                            | 139 175   | (2 312)                       | 6 326                                   |

## “Kazakhstan Aselsan Engineering” LLP

“Kazakhstan Aselsan Engineering” LTD was formed on April 18, 2011.

Founders of the joint venture are: “NC “Kazakhstan Engineering” JSC (50%), Turkish company “Aselsan” (49%) and Committee of the Industry of Defense of Turkey (1%).

Activity of “Kazakhstan Aselsan Engineering” LLP is production of electron-optical devices.

Also “Kazakhstan Aselsan Engineering” LLP signed the Memorandum of Understanding with “Eurocopter Kazakhstan Engineering” LLP within which the parties are ready to study possibility of installation on the EC-145 helicopters made by “Eurocopter Kazakhstan Engineering” LLP with the electron-optical equipment.

The management and quality system in aircraft, environment, professional safety and health, ISO 9001:2008, ISO 14001, AGAP-160, AGAP-2110, OHSAS 18001, AS9100 is introduced and functions.

In 2013 opening of plant on production of the electron-optical equipment is carried out.

## “Eurocopter Kazakhstan Engineering” LLP

“Eurocopter Kazakhstan Engineering” LLP was formed in December, 2010.

Founders of “Eurocopter Kazakhstan Engineering” LLP formed on a parity basis, are “NC “Kazakhstan Engineering” JSC and subsidiary of EADS – “Eurocopter” (France-Germany) concern.

Primary activities are:

- assembly, sale, maintenance of the helicopters EC-145;
- training of personnel: flight and technical structure of potential customers.

“Eurocopter Kazakhstan Engineering” LLP is equipped with workshops on service of mechanical knots, repair of products of sheet metal, repair of electric equipment and onboard radio electronics, repair of products from composite materials and blades, a workshop on repair of engines, the hydraulic



equipment, rooms for work on maintenance and painting, an autonomous boiler room, warehouse.

In December 2014 “Eurocopter Kazakhstan Engineering” LLP delivered the anniversary 25th helicopter to Republic of Kazakhstan.

## «Kamaz Engineering» JSC

“Kamaz Engineering” JSC was formed on May 31, 2005. The cofounder of “Kamaz Engineering” is “NC “Kazakhstan Engineering” JSC (25%) and “Kamaz” JSC (Russia) (75%).

“Kamaz Engineering” JSC is the Kazakhstan’s first plant on assembly of cargo cars and special equipment on the basis of “Kamaz” cars. It is the leader on production of cargo cars in the Republic of Kazakhstan. Since the moment of creation of plant more than ten thousand cars and special equipment which find the application in many branches of economy of the Republic, including in power structures, the Ministry of Emergency Situations, road construction, agriculture were made. The model range totals about 30 types of equipment of special and dual purpose.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.

## “ZIKSTO” JSC

“ZIKSTO” JSC was formed by transformation of the state enterprise “Mechanical Engineering Plant named after V.V.Kuibyshev” JSC.

The shareholders of “ZIKSTO” JSC is “NC “Kazakhstan Engineering” JSC (42.13%) and “TransRemMash” LLP «(Russia) (54.51%).

“ZIKSTO” JSC specializes on production of freight cars, covered cars hoppers for transportation of grain, container carriers, capital repairs of cars and components to them, capital repairs and others types of repair of cars and components to them, production for oil and gas, power complexes, common industrial goods and consumer goods.

There are all necessary licenses and certificates for the production organization.

The quality management system of ISO 9001:2008 is introduced and functions.



## FUTURE PERIOD PLANS



## FUTURE PERIOD PLANS

Increase of cost of assets of the Company in 2015 to 84 180 million tenge is provided by the Development plan of the Company and it is planned at the expense of increase in cost of fixed assets, inventories and also of implementation of the Company investment projects financed from the Republican budget and also at the expense of own and raised funds within the bonded program of the Company.

Also Labor efficiency increase in 2015 (the volume of made production on group of the Company / the planned (actual) number for the period) to level of 13 800 million tenge on the worker is planned. Labor efficiency following the results of 2014 makes 11,8 million tenge on the worker.

Work on creation of the EPC-contractor will be carried out. In realization contracts service and the subsequent service of products is provided. It allows to increase service life and provide an integrated approach.

Modernization and production updating, and also creation of new workplaces is planned. Modernization, updating of production of the enterprises of the Company will be carried out in the following main directions:

- replacement of physically and obsolete equipment by acquisition of the high-tech equipment, specialized transport and mechanisms;
- transfer of technologies;
- reconstruction, capital repairs of production rooms and equipment, change of the scheme of sites arrangement, optimization of intra factory transport streams, construction of new facilities;
- production automation, acquisition of modern equipment and software.

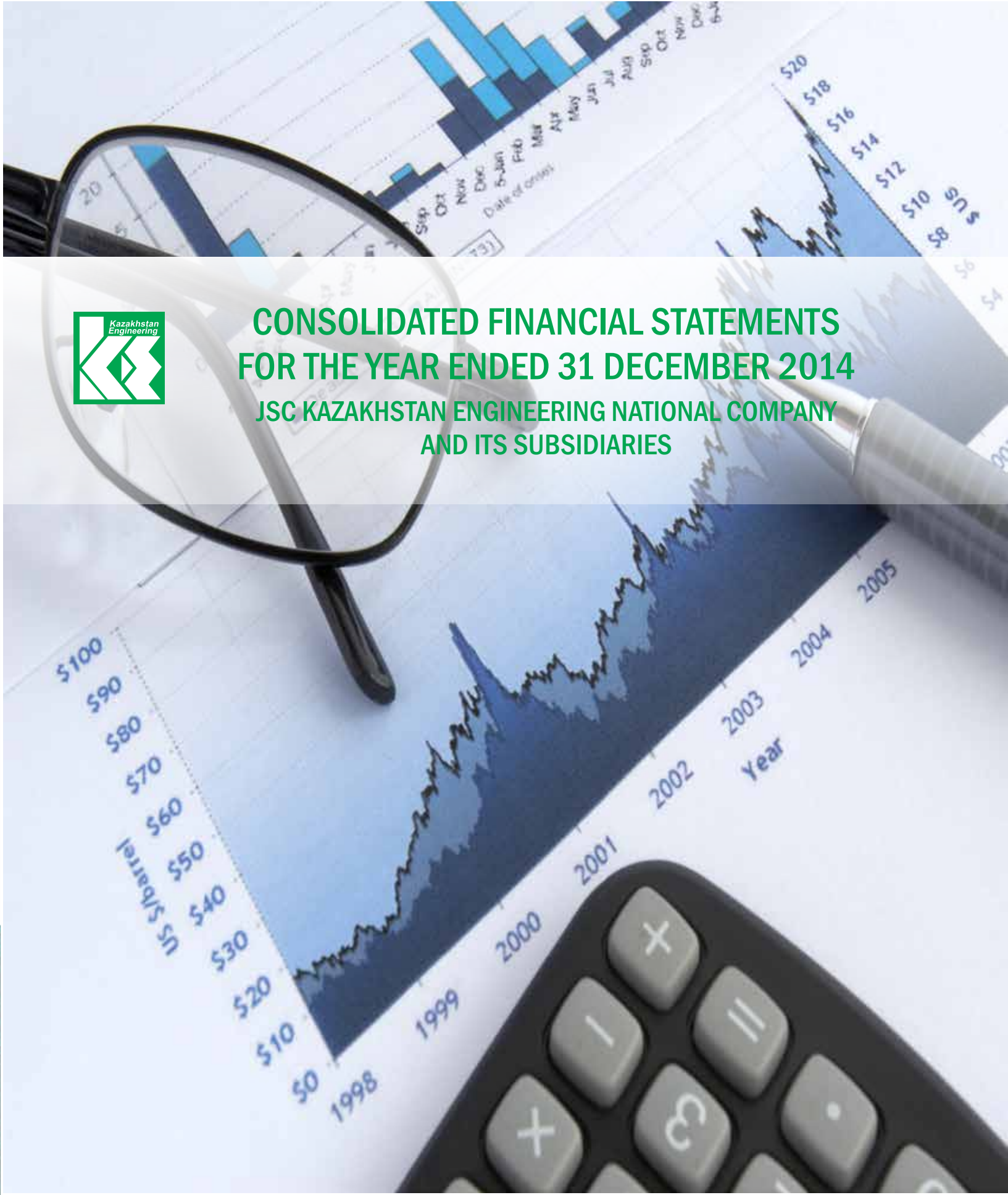
The main activity of the Company in 2015 will be aimed at ensuring the participation in implementation of the state policy regarding development, production, sales of defense, civil and dual-purpose products and other tasks established in the Development Strategy of the Company for 2013-2022.







**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**  
JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY  
AND ITS SUBSIDIARIES



**DELOITTE.**

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## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

### Auditor's Responsibility

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

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

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

### Opinion

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

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

*(in thousands of tenge)*

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

(in thousands of tenge)

|   | Notes  | 2014         | 2013         |
|---|--------|--------------|--------------|
| Revenue   | 28     | 38 488 086   | 44 771 432   |
| Cost of sales   | 29     | (28 697 195) | (36 357 258) |
| Gross profit  |        | 9 790 891    | 8 414 174    |
| General and administrative expenses   | 30     | (4 405 877)  | (4 216 931)  |
| Selling expenses  | 31     | (1 047 964)  | (1 144 067)  |
| Other income  |        | 61 831       | 59 822       |
| Impairment loss   | 6,9,10 | (225 355)    | -            |
| Foreign exchange (loss)/gain  | 32     | (1 645 870)  | 23 433       |
| Share of profit in joint ventures   | 9      | 267 861      | 671 981      |
| Share of (loss)/profit in associates  | 10     | (336 642)    | 226 168      |
| Finance income  | 33     | 1 863 522    | 738 388      |
| Finance costs   | 34     | (2 457 483)  | (1 383 734)  |
| Profit before tax   |        | 1 864 914    | 3 389 234    |
| Income tax expense  | 35     | (947 516)    | (306 214)    |
| <b>PROFIT FOR THE YEAR</b>  |        | 917 398      | 3 083 020    |
| Attributable to:  |        |              |              |
| Parent of the Company   |        | 816 380      | 2 994 883    |
| Non-controlling interests   |        | 101 018      | 88 137       |
| <b>Other comprehensive loss</b>   |        |              |              |
| <b>Article shall not be subject to subsequent reclassification to profit or loss:</b> |        |              |              |
| Remeasurement of defined benefit obligation   |        | (1 260)      | -            |
| Other comprehensive loss for the year, net of income tax                              |        | (1 260)      | -            |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>  |        | 916 138      | 3 083 020    |
| Attributable to:  |        |              |              |
| Parent of the Company   | 22     | 815 191      | 2 994 883    |
| Non-controlling interests   |        | 100 947      | 88 137       |
|   |        | 916 138      | 3 083 020    |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

## FINANCING ACTIVITY:

|   | Notes | 2014       | 2013         |
|---|-------|------------|--------------|
| Proceeds from debt securities issued  | 23    | -          | 40 713 099   |
| Contribution to charter capital   | 20    | 9 375 000  | -            |
| Redemption of debt securities   |       | -          | (4 597 294)  |
| Loans received  |       | 100        | 4 919 400    |
| Loans repaid  |       | (100)      | (11 615 728) |
| Finance lease repaid  |       | (136 652)  | (728 230)    |
| Dividends paid  |       | (693 637)  | (797 055)    |
| Net cash generated by financing activity  |       | 8 544 711  | 27 894 192   |
| CHANGE IN CASH AND CASH EQUIVALENTS, net  |       | (867 899)  | 644 267      |
| CASH AND CASH EQUIVALENTS, at the beginning of the year   | 18    | 10 758 902 | 10 114 635   |
| Effects of exchange rate changes on the balance of cash held in foreign currencies                      |       | 560 085    | -            |
| CASH AND CASH EQUIVALENTS, at the end of the year   | 18    | 10 451 088 | 10 758 902   |
| <b>Significant non-cash transactions for the years ended 31 December 2014 and 2013 were as follows:</b> |       |            |              |
|   | Notes | 2014       | 2013         |
| Finance costs capitalized to the cost of property, plant and equipment                                  |       | 177 308    | 202 379      |
| Transfer from inventories to property, plant and equipment (Note 6)                                     |       | 150 736    | 522 069      |
| Transfer from other long term assets to intangible assets (Note 7)                                      |       | 107 228    | -            |
| Transfer from inventories to intangible assets (Note 7)   |       | 97 240     | 80 336       |
| Fair value adjustment on loan given to joint venture (Note 39)  |       | 87 825     | 147 566      |
| Accrued depreciation in the cost of finished goods and work-in-progress                                 |       | 33 973     | 27 577       |
| Transfer from investment property to property, plant and equipment (Note 6)                             |       | 32 500     | -            |
| Fair value adjustment on loan received from the Shareholder   |       | -          | 97 717       |
| Transfer from property, plant and equipment to assets classified as held for sale (Note 6)              |       | -          | 5 031        |
| Transfer from inventories to other non-current assets   |       | -          | 11 210       |



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

## 1. GENERAL INFORMATION

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

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

Principal activity of the Company and its subsidiaries are:

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

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

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

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

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

### **Operating Environment**

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group’s financial position.

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

### **STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT YEAR**

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

- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*;
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 *Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 *Financial Instruments: recognition and measurement - Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC21 *Levies*.

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

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

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

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

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

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

#### *Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities*

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

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

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

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

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

As the Group does not have any derivatives that are subject to novation, the application of these

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

*IFRIC 21 Levies*

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

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

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

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

|  | <b>Effective for reporting periods<br/>starting on and after</b> |
|--|--|
| IFRS 9 <i>Financial Instruments</i>  | 1 January 2018   |
| IFRS 14 <i>Regulatory Deferral Accounts</i>  | 1 January 2016   |
| IFRS 15 <i>Revenue from Contracts with Customers</i>   | 1 January 2017   |
| Adjustments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> , regarding clarifications to admissible depreciation and amortisation methods Adjustments to IFRS as part of | 1 January 2016   |
| <i>IFRS Improvements 2010-2012 and IFRS Improvements 2011-2013 Adjustments to IFRS as part of IFRS Improvements September 2014</i>   | 1 July 2014  |
|  | 1 January 2016   |

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

*IFRS 9 Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 *Financial Instruments: Recognition and Measurement*.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

*IFRS 15 Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The standard is effective for annual periods beginning on or after 1 January 2017.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

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

Under IFRS 15, the Company recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

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

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Statement of compliance with IFRS**

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

#### **Basis of measurement**

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

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

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



IAS 2 or value in use in IAS 36.

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

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

### **Functional and presentation currency**

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

### **Foreign currency transactions**

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

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

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

### **Going concern basis**

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

### **Basis of consolidation**

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

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

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

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

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

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

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

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

### **Changes in the Group's ownership interests in existing subsidiaries**

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

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

Зависимое предприятие это предприятие, на деятельность которого Группа оказывает значительное влияниеAn associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

unanimous consent of the parties sharing control.

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

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

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

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

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

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

assets or liabilities.

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

#### **Non-current assets held for sale**

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

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

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

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

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

#### **Property, plant and equipment**

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

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

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

**Group of assets**

Buildings and constructions  
Machinery and equipment  
Vehicles  
Other assets

**Useful lives**

8 - 100 years  
3 - 20 years  
5-10 years  
4-20 years

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

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

**Intangible assets**

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

**Investment property**

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

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

**Impairment of tangible and intangible assets**

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying



amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

### **Inventories**

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

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

### **Financial instruments**

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

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

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

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

### **Financial assets**

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

#### Cash and cash equivalents

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

#### Short-term financial investments

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

#### Trade accounts receivable

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

#### Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and other receivables are measured at amortised cost

using the effective interest method, less any impairment.

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

Other financial assets

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

Impairment of financial assets

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

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

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

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

**Financial liabilities and equity instruments**

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

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

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

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

Financial liabilities are represented by contractual agreements, which are recorded when an

obligation under the contracts arises.

Trade and other accounts payable

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

Loans and borrowings

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

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

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

Offsets

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

Financial assets and liabilities at fair value through profit or loss

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

Embedded derivatives

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

**Derecognition of financial assets and liabilities**

**Financial assets**

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

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

If the Group has transferred its rights to receive cash flows from the asset and neither passed nor kept all the risks and rewards of the asset, nor transferred control over the asset, the asset is recognized to the extent that the Group continues to participate in the asset. Continuance of participation that takes the

form of guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of compensation that may be required from the Group as a settlement.

**Financial liabilities**

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

**Revenue recognition**

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

**Sale of goods**

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

**Rendering of services**

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

**Construction contracts**

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

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

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

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

**Lease**

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

**The Group as a lessor**

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

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

**The Group as a lessee**

Assets held under finance leases are initially recognised as assets of the Group at their fair value

at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

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

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

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

#### **Borrowing costs**

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

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

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

#### **Pension fund liabilities**

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

#### **Taxation**

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

#### **Current tax**

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

#### **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination)



of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

#### ***Current and deferred tax for the year***

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

#### **Provisions**

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

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

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

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

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

Key assumptions for the future and other key sources of estimation uncertainty at the reporting date

that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the following financial year are discussed below

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

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

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

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

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

**Recognition and estimation of debt component of preferred shares**

In the process of use of accounting policies in regard to debt component of the Group's preferred shares, the management applied its judgments to terms of these shares and decided that the Group's preferred shares should be considered as a compound instrument in accordance with IAS 32 (revised) "Financial instruments: Presentation", as there is an obligation to pay dividends to investors. The

standard requires that proceeds from issue of such a compound instrument are classified as equity or liability based on preferential right of such an instrument: contractual obligation to pay dividends is classified as liability, while participation in final allocation between shareholders is classified as equity.

**Useful lives of property, plant and equipment**

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

**Warranty obligations**

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

**Impairment of assets**

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

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

#### **Valuation of inventories**

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

#### **Taxation**

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

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

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 2014. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

### **5. SEGMENT INFORMATION**

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

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

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

Principles of accounting policies of reporting segments do not differ from Group accounting policy,

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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:

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

**The Group carries out its activity in Kazakhstan.**

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

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

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

products and service

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

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

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

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

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

|               | <b>2014</b>       | <b>2013</b>       |
|---------------|-------------------|-------------------|
| Kazakhstan    | 35 392 286        | 41 282 905        |
| CIS countries | 2 748 200         | 2 911 327         |
| Other         | 347 600           | 577 200           |
|               | <u>38 488 086</u> | <u>44 771 432</u> |

## 6. PROPERTY, PLANT AND EQUIPMENT

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



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

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

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

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

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

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

## 7. INTANGIBLE ASSETS

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

## 8. SUBSIDIARIES

| Name   | Principal activity   | Country    | Ownership share<br>31 December |      |
|--|--|------------|--------------------------------|------|
|  |  |            | 2014                           | 2013 |
| JSC 811<br>Motor-repair Plant KE                       | Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment   | Kazakhstan | 100%                           | 100% |
| JSC 832 Motor-repair<br>Plant KE                       | Repair of vehicles   | Kazakhstan | 100%                           | 100% |
| JSC S.M. Kirov Plant                                   | Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery   | Kazakhstan | 84%                            | 84%  |
| JSC Kirov Machinery<br>Plant                           | Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry  | Kazakhstan | 98%                            | 98%  |
| JSC Munaymash  | Downhole sucker rod pumps for oil and gas sector, wide range goods   | Kazakhstan | 52%                            | 52%  |
| JSC Research Institute<br>Hydropribor                  | Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects   | Kazakhstan | 93%                            | 93%  |
| JSC Omega<br>Instrument Making<br>Plant                | Water purification plants «Taza Su», parts and components for railway; digital phone stations and spare parts, phones, wide range goods  | Kazakhstan | 99%                            | 99%  |
| JSC Petropavlovsk<br>Heavy Machinery<br>Building Plant | Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment | Kazakhstan | 100%                           | 100% |
| JSC Semey<br>Engineering                               | Repair of defence purposes vehicles, engines, car shipping   | Kazakhstan | 100%                           | 100% |
| JSC Semipalatinsk<br>Machinery<br>Construction Plant   | Crawler-T ransporters tractors, manhole covers for the wagons, repair of engineering equipment   | Kazakhstan | 99%                            | 99%  |
| JSC Tynys  | Medical equipment, gas drive fittings, aviation products, tubes, extinguishing   | Kazakhstan | 99%                            | 99%  |

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|  |   |            |      |      |
|--|---|------------|------|------|
| JSC Uralsk Plant Zenith  | Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry                            | Kazakhstan | 95%  | 95%  |
| JSC KazEng Electronics   | Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies | Kazakhstan | 100% | 100% |
| SRI Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction) | Design and development of new types of special products for the defence industry  | Kazakhstan | 100% | 100% |
| Kazakhstan Aviation Industry LLP   | Maintenance and support of aviation technics  | Kazakhstan | 100% | 100% |

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

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

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

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

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|  | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Current assets                                     | 1 454 320        | 1 386 670        |
| Non-current assets                                 | 1 303 117        | 1 444 929        |
| Current liabilities                                | (773 237)        | (831 466)        |
| Non-current liabilities                            | (871 496)        | (1 007 876)      |
| Equity attributable to Parent of the Company       | 578 606          | 516 380          |
| Non-controlling interests                          | 534 098          | 475 877          |
|  | <b>2014</b>      | <b>2013</b>      |
| Revenue  | 3 193 291        | 3 303 863        |
| Expenses   | (2 982 985)      | (3 120 087)      |
| Profit and total comprehensive income for the year | 210 306          | 183 776          |
| <i>Attributable:</i>                               |                  |                  |
| to Parent of the Company                           | 109 359          | 95 639           |
| to the non-controlling interests                   | 100 947          | 88 137           |
| Profit and total comprehensive income for the year | 210 306          | 183 776          |
| Dividends paid to non-controlling interests        | 41 351           | 17 586           |
| <i>Net cash inflow/(outflow) from:</i>             |                  |                  |
| - operating activities                             | 306 436          | 259 409          |
| - investing activities                             | (23 563)         | (15 939)         |
| - financing activities                             | (264 885)        | (206 511)        |
| Net cash inflow                                    | 17 988           | 36 959           |

## 9. INVESTMENTS IN JOINT VENTURES

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

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

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

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

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

| <b>At 31 December 2014</b>  | <b>Eurocopter<br/>Kazakhstan<br/>engineering LLP</b> | <b>Thales<br/>Kazakhstan<br/>engineering LLP</b> | <b>Kazakhstan<br/>ASELSAN<br/>engineering LLP</b> |
|---|--|--|---|
| Current assets, including   | 6 049 955  | 112 460  | 3 058 312   |
| <i>Cash and cash equivalents</i>  | 3 748 832  | 273  | 895 227   |
| Non-current assets  | 1 828 139  | 228 134  | 5 930 527   |
| Current liabilities, including  | (2 121 926)  | (162 203)  | (3 042 288)                                       |
| Current financial liabilities (fless trade and other payables and provisions) | -  | (21 560)   | (956 861)   |
| Non-current liabilities   | -  | (14,787)   | (59 379)  |
| Net assets  | 5 756 168  | 163 604  | 5 887 172   |
| Group's ownership interest  | 50%  | 50%  | 50%   |
| Group's share of net assets   | 2 878 084  | 81 802   | 2 943 586   |
| Fair value adjustment of interest free loan given                             | -  | -  | 235 391   |

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|  |             |           |             |
|--|-------------|-----------|-------------|
| Impairment   | -           | (81 802)  | -           |
| Carrying amount of the Group's interest in joint ventures                    | 2 878 084   | -         | 3 178 977   |
| <b>For the year ended 31 December 2014</b>                                   |             |           |             |
| Revenue  | 12 551 353  | -         | 3 898 309   |
| Profit/(loss) and total comprehensive income/(loss) for the year             | 779 262     | (27 288)  | (216 252)   |
| Share of profit/(loss) in joint ventures                                     | 389 631     | (13 644)  | (108 126)   |
| <b>at 31 December 2013</b>   |             |           |             |
| Current assets   | 5 512 094   | 489 499   | 2 260 303   |
| Cash and cash equivalents  | 4 756 400   | 768       | 102 321     |
| Non-current assets   | 1 830 974   | 222 715   | 5 425 908   |
| Current liabilities  | (1 816 919) | (514 457) | (7 523 408) |
| Current financial liabilities (less trade and other payables and provisions) | -           | (31 368)  | (5 028 940) |
| Non-current liabilities  | -           | (6 865)   | (59 379)    |
| Net assets   | 5 526 149   | 190 892   | 103 424     |
| Group's ownership interest   | 50%         | 50%       | 50%         |
| Group's share of net assets  | 2 763 075   | 95 446    | 51 712      |
| Fair value adjustment of interest free loan given                            | -           | -         | 147 566     |
| <b>For the year ended 31 December 2013</b>                                   |             |           |             |
| Revenue  | 10 512 200  | -         | -           |
| Profit/(loss) and total comprehensive income/(loss) for the year             | 1 656 148   | (211 697) | (100 488)   |
| Share of profit/(loss) in joint ventures                                     | 828 074     | (105 849) | (50 244)    |



## 10. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are as follows:

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

|                        | JSC ZIKSTO | MBM-Kirovets<br>LLP | JSC KAMAZ-<br>engineering | Other<br>aggregated<br>joint<br>ventures | TOTAL     |
|------------------------|------------|---------------------|---------------------------|--|-----------|
| At 1 January 2013      | 700 013    | 355 576             | 314 668                   | 141 559                                  | 1 511 816 |
| Share of profit/(loss) | 57 230     | (10 600)            | 167 104                   | 12 434                                   | 226 168   |
| Dividends received     | -          | -                   | (30 358)                  | -  | (30 358)  |
| At 31 December 2013    | 757 243    | 344 976             | 451 414                   | 153 993                                  | 1 707 626 |
| Share of profit/(loss) | (505 199)  | 21 647              | 275 150                   | (128 240)                                | (336 642) |
| Dividends received     | -          | (17 318)            | (65 539)                  | -  | (82 857)  |
| Impairment             | -          | (34 609)            | -                         | -  | (34 609)  |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

|  |           |           |         |          |           |
|--|-----------|-----------|---------|----------|-----------|
| Transfer to assets classified as held for sale (Note 19) | (252 044) | (314 696) | -       | (25 753) | (592 493) |
| At 31 December 2014                                      | -         | -         | 661 025 | 9        | 661 025   |

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

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

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

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

| For the year ended 31 December 2014                              | JSC ZIKSTO  | MBM-Kirovets LLP | JSC KAMAZ-engineering | Other aggregated |
|--|-------------|------------------|-----------------------|------------------|
| Revenue  | 1 556 440   | 1 590 843        | 14 254 642            | (3 195 169)      |
| Profit/(loss) and total comprehensive income/(loss) for the year | (1 202 855) | 44 178           | 1 100 600             | (430 952)        |
| Share of profit/(loss) in associates                             | (505 199)   | 21 647           | 275 150               | (128 240)        |
| Unrecognised share in losses for the year                        | -           | -                | -                     | (124 633)        |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

## 11. OTHER NON-CURRENT ASSETS

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

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

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

## 13. TRADE ACCOUNTS RECEIVABLE

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

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

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

#### 14. OTHER TAXES RECOVERABLE

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

#### 15. RESTRICTED CASH

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

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

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

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

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

## 16. OTHER CURRENT ASSETS

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

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

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

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

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



## 17. SHORT-TERM FINANCIAL INVESTMENTS

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

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

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

## 18. CASH AND CASH EQUIVALENTS

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

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

Cash and cash equivalents are denominated in the following currencies:

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

## 19. ASSETS CLASSIFIED AS HELD FOR SALE

In July-August 2014, within privatization plant for 2014-2016 approved by Government of the Republic of Kazakhstan, the Shareholder approved a list of the Group's subsidiaries, associates and joint ventures subject to disposal. Investments, whose sale is expected in 2015, were classified as assets held for sale in consolidated statement of financial position for the amount of 592 493 thousand tenge (Note 10). It is represented by investment in JSC ZIKSTO (42.13%), MBM-Kirovets LLP (49%) and Kaz-ST engineering Bastau LLP (49%). The Group plans to sell its share in above companies at auction, to be held in March-April 2015. Management of the Group anticipates that the proceeds from the sale of these assets will exceed its carrying amount and, accordingly, no impairment was recognized upon their classification as held for sale, except for investments in MBM-Kirovets LLP (Note 10).

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

## 20. CHARTER CAPITAL

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

During 2014 the Company issued additional common shares of 9 375 000 shares with par value of 1000 tenge each. The issued common shares were purchased by the Committee of property and privatization of the Ministry of Finance of Kazakhstan (hereafter - "Ministry of Finance"). On 15 December 2014, the Ministry of Finance transferred all holding shares of the Company to JSC SWF Samruk-Kazyna.

In 2014 and 2013, the Company declared and paid dividends to the Shareholder in the amount of 652,286 thousand tenge and 678 393 thousand tenge, respectively.

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

## 21. ADDITIONAL PAID-IN-CAPITAL

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

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

## 22. NON-CONTROLLING INTERESTS

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

### 23. DEBT SECURITIES ISSUED

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

|   | Maturity        | Coupon rate | 31 December 2014 | 31 December 2014 |
|---|-----------------|-------------|------------------|------------------|
| Local bonds issued at a price of: 95.2341%-Tranche 1    | 6 November 2015 | 5%          | 4 534 000        | 4 534 000        |
| Local bonds issued at a price of: 96.4613% - Tranche 2  | 6 November 2015 | 5%          | 1 200 000        | 1 200 000        |
| Local bonds issued at a price of: 96.9239% - Tranche 3  | 6 November 2015 | 5%          | 1 000 000        | 1 000 000        |
| Local bonds issued at a price of: 97.3266% - t ranche 4 | 6 November 2015 | 5%          | 1 885 000        | 1 885 000        |
| Local bonds issued at a price of: 47.8540% - Tranche 5  | 6 November 2015 | 5%          | 1 765 000        | 1 765 000        |
| Eurobonds issued at a price of 100%                     | 3 December 2015 | 4.55%       | 36 470 000       | 30 812 000       |
| <i>Including/(less):</i>                                |                 |             |                  |                  |
| Accrued coupon  |                 |             | 202 334          | 183 026          |
| Transaction costs                                       |                 |             | (214 374)        | (315 935)        |
| Discount on debt securities issued                      |                 |             | (176 613)        | (323 467)        |
| Total bonds placed                                      |                 |             | 46 665 347       | 40 739 624       |
| Less: current portion of debt securities issued         |                 |             | (10 409 721)     | (183 026)        |
| Non-current portion of debt securities issued           |                 |             | 36 255 626       | 40 556 598       |

#### Local bonds

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

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

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

### Eurobonds

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

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

## 24. FINANCE LEASE OBLIGATIONS

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

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

In 2014 and 2013, interest rate was 5%.

Finance lease obligations are denominated in tenge.

## 25. TRADE ACCOUNTS PAYABLE

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

Trade accounts payable are denominated in the following currencies:

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

## 26. OTHER TAXES PAYABLE

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

## 27. OTHER CURRENT LIABILITIES

|  | 31 December 2014 | 31 December 2013 |
|--|------------------|------------------|
| Advances received from related parties (Note 39) | 487 740          | 1 496 563        |
| Advances received from third parties             | 858 147          | 822 639          |
| Provisions                                       | 375 245          | 468 641          |
| Salary payable                                   | 309 834          | 240 155          |
| Dividends payable to third parties               | 203 427          | 177 91           |
| Other deferred income                            | 327              | 2 968            |
| Other payables                                   | 154 526          | 159 369          |
|  | 2 389 246        | 3 367 526        |

Movement in provisions is presented as follows:

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

Other current liabilities are mainly denominated in tenge.

## 28. REVENUE

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

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



## 29. COST OF SALES

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

## 30. GENERAL AND ADMINISTRATIVE EXPENSES

|  | 2014      | 2013      |
|--|-----------|-----------|
| Payroll and related taxes  | 2 216 641 | 2 014 292 |
| Provision for unused vacation and other remunerations (Notes 27, 29) | 223 046   | 66 686    |
| Depreciation and amortisation  | 196 489   | 174 150   |
| Rent expenses  | 193 347   | 180 394   |
| Business trips and representative expenses                           | 182 426   | 210 977   |
| Allowance for doubtful debts   | 126 821   | 161 688   |
| Taxes  | 109 984   | 247 798   |

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|  |           |           |
|--|-----------|-----------|
| Utilities                                    | 85 986    | 63 755    |
| Professional services                        | 67 969    | 128 453   |
| Materials                                    | 64 336    | 47 077    |
| Bank commissions                             | 63 533    | 77 615    |
| Repair and maintenance                       | 51 209    | 52 091    |
| Allowance for obsolete inventories (Note 12) | 41 735    | 110 146   |
| Communication                                | 33 048    | 61 279    |
| Education of personnel                       | 26 531    | 27 952    |
| Provision for employees benefits             | 24 210    | 14 748    |
| Accrual of other provisions (Note 27)        | 22 972    | 4 766     |
| Security                                     | 16 736    | 21 666    |
| Transportation                               | 14 897    | 14 528    |
| Fines and penalties                          | 9 678     | 12 646    |
| Charity and sponsorship                      | 6 688     | 6 622     |
| Other  | 627 595   | 517 602   |
|  | 4 405 877 | 4 216 931 |

## 31. SELLING EXPENSES

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

## 32. FOREIGN EXCHANGE LOSS

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

### 33. FINANCE INCOME

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

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

### 34. FINANCE COSTS

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

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

### 35. TAXATION

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

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

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

### 36. CONTINGENT LIABILITIES

#### Taxation and regulatory environment

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

#### Legal matters

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

#### Environmental matters

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

#### Insurance

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

### Market limitation

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

### Capital commitments

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

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

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

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed equity requirements. The Group's capital structure includes net debt (which is comprised of debt securities issued, finance lease, including embedded derivative and debt component of preferred shares as disclosed in Notes 23 and 24, after deducing cash and cash equivalents, restricted cash and short-term financial investments) and equity of the Group (which is comprised of charter capital, additional paid-in capital, retained earnings and non-controlling interests as disclosed in Notes 20, 21 and 22).

## 37. FINANCIAL INSTRUMENTS, OBJECTIVES AND FINANCIAL RISK MANAGEMENT POLICIES

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

### Capital adequacy management

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

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

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

The Group's capital structure includes net debt (which is comprised of debt securities issued, finance



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

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

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

**Significant accounting policies**

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

**Financial risk management objectives**

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

**Interest rate risk**

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

**Currency risk**

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

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

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

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

**Exposure to currency risk**

|                                       | Denominated in U.S. dollars |                  | Denominated in Russian roubles |                  | Denominated in EURO |                  |
|---------------------------------------|-----------------------------|------------------|--------------------------------|------------------|---------------------|------------------|
|                                       | 31 December 2014            | 31 December 2013 | 31 December 2014               | 31 December 2013 | 31 December 2014    | 31 December 2013 |
| <b>Financial assets:</b>              |                             |                  |                                |                  |                     |                  |
| Cash and cash equivalents             | 34 301                      | 3 085 714        | 316 368                        | 47 083           | 4 301               | 702              |
| Restricted cash                       | 97 921                      | 82 489           | -                              | -                | -                   | -                |
| Short-term investments                | 28 443 925                  | 20 110 038       | -                              | -                | -                   | -                |
| Interest-free loan to a related party | 1 457 297                   | 2 160 081        | -                              | -                | -                   | -                |
| Trade accounts receivable             | 349 645                     | -                | 108 593                        | 50 044           | -                   | -                |
| <b>Financial liabilities:</b>         |                             |                  |                                |                  |                     |                  |
| Debt securities issued                | (36 380 080)                | (30 648 766)     | -                              | -                | -                   | -                |
| Trade accounts payable                | (408 148)                   | (219 248)        | (631 864)                      | (734 952)        | (80 212)            | -                |
|                                       | (6 405 139)                 | (5 429 692)      | (200 903)                      | (637 825)        | (75 911)            | 702              |

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

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

### Sensitivity analysis

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

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

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

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

### Credit risk

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

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

The maximum exposure to credit risk for trade receivables at the reporting date, and by geographic regions was as follows:

|                     | 31 December 2014 | 31 December 2013 |
|---------------------|------------------|------------------|
| Within the country  | 4 023 576        | 2 394 324        |
| Outside the country | 422 771          | 50 044           |
|                     | 4 446 347        | 2 444 368        |

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

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

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

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

#### Market risk

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

#### Liquidity risk

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

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

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

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

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| 2014                         | Interest   | 1-6 months | 6 months<br>1 year | 1-5 years  | More<br>than 5<br>years | Total      |
|------------------------------|------------|------------|--------------------|------------|-------------------------|------------|
| <i>Non-interest bearing:</i> |            |            |                    |            |                         |            |
| Trade accounts payable       |            | 2 429 652  | -                  | -          | -                       | 2 429 652  |
| Other liabilities            | -          | 309 834    | 357 953            | 65 316     | 221 625                 | 954 728    |
| <i>Interest bearing:</i>     |            |            |                    |            |                         |            |
| Debt securities issued       | 4.55% - 5% | 202 334    | 12 308 092         | 37 790 557 | -                       | 50 300 983 |
| Finance lease                | 5%         | 85 353     | 83 753             | 748 672    | 110 890                 | 1 028 668  |
| <b>2013</b>                  |            |            |                    |            |                         |            |
| <i>Non-interest bearing:</i> |            |            |                    |            |                         |            |
| Trade accounts payable       | -          | 3 163 228  | -                  | -          | -                       | 3 163 228  |
| Other liabilities            | -          | 240 155    | 336 560            | 95 837     | 212 775                 | 885 327    |
| <i>Interest bearing:</i>     |            |            |                    |            |                         |            |
| Loans                        | 8%-16%     | 168 743    | 5 650 482          | 1 549 518  | -                       | 7 368 743  |
| Debt securities issued       | 4.55-5%    | 1 143 599  | 960 573            | 43 696 664 | -                       | 45 800 836 |
| Finance lease                | 5%         | 61 997     | 114 052            | 772 318    | 260 944                 | 1 209 311  |

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

| 2014                                       | Interest rate | 1 month<br>1 year | 1-5<br>years | More than 5<br>years | Unknown<br>period | Total      |
|--|---------------|-------------------|--------------|----------------------|-------------------|------------|
| <i>Interest bearing:</i>                   |               |                   |              |                      |                   |            |
| Short-term financial investments           | 5%            | 30 810 844        | -            | -                    | -                 | 30 810 844 |
| <i>Non-interest bearing:</i>               |               |                   |              |                      |                   |            |
| Cash and cash equivalents, less petty cash | -             | 10 451 088        | -            | -                    | -                 | 10 451 088 |
| Restricted cash                            | -             | 531 265           | -            | -                    | -                 | 531 265    |

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|  |         |            |        |   |         |            |
|--|---------|------------|--------|---|---------|------------|
| Trade accounts receivable                  | -       | 4 446 347  | -      | - | 257 045 | 4 703 392  |
| Other assets                               | -       | 1 913 682  | 21 592 | - | -       | 1 935 274  |
| <b>2013</b>                                |         |            |        |   |         |            |
| <i>Interest bearine:</i>                   |         |            |        |   |         |            |
| Short-term deposits                        | 4%-6.7% | 386 929    | -      | - | -       | 386 929    |
| Short-term financial investments           | 5%      | 21 041 887 | -      | - | -       | 21 041 887 |
| Interest bearing loan to a related party   | 7.5%    | 555 857    | -      | - | -       | 555 857    |
| <i>Non-interest bearine:</i>               |         |            |        |   |         |            |
| Cash and cash equivalents, less petty cash | -       | 10 366 445 | -      | - | -       | 10 366 445 |
| Restricted cash                            | -       | 371 151    | -      | - | -       | 371 151    |
| Trade accounts receivable                  | -       | 2 444 368  | -      | - | 110 688 | 2 555 056  |
| Other assets                               | -       | 2 459 622  | 52 557 | - | 75 388  | 2 587 567  |

**38. FAIR VALUE**

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

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

*Cash and cash equivalents*

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

*Short-term financial investments*

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

*Trade and other accounts receivable and payable*

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



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**Loans**

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

**Investment property**

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

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

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

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

|                                    | 31 December 2014 |                | 31 December 2013 |                |
|------------------------------------|------------------|----------------|------------------|----------------|
|                                    | Fair value       | Carrying value | Fair value       | Carrying value |
| <b>Assets</b>                      |                  |                |                  |                |
| Loans to a related party           | 1 457 364        | 1 457 364      | 2 692 992        | 2 692 992      |
| Short-term financial investments   | 28 795 181       | 28 795 181     | 20 110 038       | 20 110 038     |
| Investment property                | -                | -              | 399 590          | 35 674         |
| Assets classified as held for sale | 593 458          | 593 458        | 8 708            | 8 708          |
|                                    | 30 846 003       | 30 846 003     | 23 211 328       | 22 847 412     |
| <b>Liabilities</b>                 |                  |                |                  |                |
| Debt securities issued             | 45 756 464       | 46 665 347     | 41,518,158       | 40,739,624     |
| Finance lease obligations          | 878 734          | 878 734        | 1,006,280        | 1,006,280      |
|                                    | 46 635 198       | 47 544 081     | 42,524,438       | 41,745.904     |

## Fair value hierarchy as at 31 December 2014

|  | Level 1    | Level 2    | Level 3 | Total      |
|--|------------|------------|---------|------------|
| <b>Financial assets</b>                        |            |            |         |            |
| Loans to a related party                       | -          | 1 457 364  | -       | 1 457 364  |
| Short-term financial investments               | -          | 28 795 181 | -       | 28 795 181 |
| <b>Non-financial assets</b>                    |            |            |         |            |
| Non-current assets classified as held for sale | -          | -          | 593 458 | 593 458    |
| <b>Financial liabilities</b>                   |            |            |         |            |
| Debt securities issued                         | 45 756 464 | -          | -       | 45 756 464 |
| Finance lease obligations                      | -          | 878 734    | -       | 878 734    |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

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

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

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

### 39. RELATED PARTY TRANSACTIONS

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

| Trade accounts receivable (Note 13)   | 31 December 2014 | 31 December 2013 |
|---------------------------------------|------------------|------------------|
| JSC NC Kazakhstan Temir Zholy         | 1 127 706        | 690 462          |
| Ministries and agencies               | 688 569          | 279 018          |
| JSC NC KazMunaiGas                    | 570 370          | 780 122          |
| JSC Mangystaumunaigaz                 | 227 498          | -                |
| Other                                 | 123 782          | 65 816           |
|                                       | 2 737 925        | 1 815 418        |
| <b>Dividends receivable (Note 16)</b> |                  |                  |
| JSC ZIKSTO                            | 18 095           | 45 962           |

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| <b>Trade accounts payable (Note 25)</b> |           |           |
|---|-----------|-----------|
| JSC Aviarepair plant No.405             | 499 623   | 635 375   |
| F'kam LLP                               | 395 214   | 618 989   |
| JSC NC Kazakhstan Temir Zholy           | 145 155   | -         |
| JSC KAMAZ-Engineering                   | 78 148    | 171 121   |
| JSC Samruk Energy                       | 15 334    | 11 540    |
| JSC NC KazMunaiGas                      | -         | 2 180     |
| Other                                   | 4 650     | 28 460    |
|   | 1 138 124 | 1 467 665 |
| <b>Advances given (Note 16)</b>         |           |           |
| JSC NC KazMunaiGas                      | 14 426    | 16 162    |
| JSC Samruk Energy                       | 3 237     | 4 598     |
| JSC Kazpost                             | 4 059     | 3 633     |
| Kaz-ST Engineering Bastau LLP           | -         | 44 800    |
| Other                                   | 29 843    | 6 947     |
|   | 51 565    | 76 140    |
| <b>Loans given (Note 16)</b>            |           |           |
| Kazakhstan ASELS AN engineering LLP     | 1 476 364 | 2 724 484 |
| Accrued interest                        | -         | 8 427     |
| Less fair value adjustment              | (19 067)  | (39 919)  |
|   | 1 457 297 | 2 692 992 |

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

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

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

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

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

During 2013, the Company provided a loan of 524 484 thousand tenge to Kazakhstan ASELSAN engineering LLP at annual interest rate of 7.5% with a maturity until 31 July 2014. During 2014, under

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the same loan agreement the Company provide additional amount of 85 911 thousand tenge. As at 31 December 2014, the loan was fully repaid.

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

| Cash and cash equivalents and restricted cash (Notes 15,18) | 31 December 2014 | 31 December 2013 |
|---|------------------|------------------|
| JSC BTA Bank (cash and cash equivalents)                    | -                | 412 011          |
| JSC Temir Bank (cash and cash equivalents)                  | -                | 100 372          |
| JSC Alliance Bank (cash and cash equivalents)               | -                | 6 229            |
| JSC BTA Bank (restricted cash)                              | -                | 82 730           |
|   | -                | 601 342          |
| <b>Advanced received (Note 27)</b>                          |                  |                  |
| Ministries and agencies                                     | 469 405          | 1 276 298        |
| JSC NC Kazakhstan Temir Zholy                               | 10 719           | 16 009           |
| JSC NC KazMunaiGas  | 7 616            | 204 256          |
|   | 487 740          | 1 496 563        |
| <b>Dividends to the Shareholder (Note 20)</b>               |                  |                  |
| Accrued for the period                                      | 652 286          | 678 393          |
| <b>Revenue (Note 28)</b>                                    |                  |                  |
|   | <b>2014</b>      | <b>2013</b>      |
| Ministries and agencies                                     | 23 025 335       | 24 808 107       |
| JSC NC KazMunaiGas  | 4 629 989        | 6 641 372        |
| JSC NC Kazakhstan Temir Zholy                               | 3 496 222        | 4 224 434        |
| JSC Mangystaumunaigaz                                       | 966 574          |                  |
| JSC KAMAZ-Engineering                                       | 33 881           | 54 254           |
| JSC Lokomotiv kurastyru zauty                               | 30 555           |                  |
| CJSC Elkam-Neftemash  | 11 447           | 50 757           |
| JSC NAC Kazatomprom   | 534              | 5 007            |
| Other   | 165 560          | 11 047           |
|   | 32 360 097       | 35 794 978       |
| <b>Expenditures on services rendered and goods acquired</b> |                  |                  |
| Elkam LLP   | 1 932 838        | 1 940 593        |
| JSC NC Kazakhstan Temir Zholy                               | 479 379          | 325 993          |
| JSC NC KazMunaiGas  | 127 273          | 113 329          |
| Kaz-ST Engineering Bastau LLP                               | 80 939           | 57 986           |
| JSC Samruk Energy   | 80 184           | 95 783           |
| JSC Aviarepair plant No.405                                 | 71 110           | 2 558 234        |
| JSC Kazakhtelecom   | 19 313           | 24 242           |

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|  |           |           |
|--|-----------|-----------|
| Samruk Kazyna-Contract LLP                                     | 14 476    | 26 584    |
| Elkam Munaymash LLP  | 11 733    | 17 265    |
| JSC BTA Bank   | 10 649    | 36 467    |
| JSC KAMAZ-Engineering  | -         | 406 986   |
| Other  | 210 262   | 10 310    |
|  | 3 038 156 | 5 613 772 |
| <b>Finance income (Note 33)</b>                                |           |           |
| Kazakhstan ASELSAN engineering LLP                             | 121 420   | 147 884   |
| JSC BTA Bank   | 3 091     | 7 637     |
|  | 124 511   | 155 521   |
| <b>Finance costs (Note 34)</b>                                 |           |           |
| JSC Samruk-Energ}  | 185 565   | 10 515    |
| JSC BTA Bank   | -         | 26 272    |
| JSC SWF Samruk-Kazyna (interests and amortization of discount) | -         | 273 506   |
|  | 185 565   | 310 293   |

#### Remuneration of key management personnel

For the years ended 31 December 2014 and 2013, compensation to key management personnel amounted to 361,910 thousand tenge and 337 203 thousand tenge, respectively.

#### 40. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Glossary

In this Annual Report, the following definitions and abbreviations are used:

1. “NC “Kazakhstan Engineering” JSC, the Company – Joint-Stock Company “National Company “Kazakhstan Engineering”;
2. “Samruk-Kazyna” JSC, the Fund - Joint-Stock Company “National Welfare Fund “Samruk-Kazyna”;
3. JSC - Joint-Stock Company
4. SDO - State Defense Order;
5. Group of the Company – the Company, subsidiaries of the Company, more than 50% of the voting shares (share of participation) which are owned by the Company;
6. Subsidiaries and affiliates - subsidiaries affiliated organizations;
7. KPI - Key performance indicators;
8. IFRS - International Financial Reporting Standards;
9. RoK MEMR - Republic of Kazakhstan Ministry of Energy and Mineral Resources;
10. VAT - Value Added Tax;
11. SRI - Scientific Research Institute;
12. LLC - Limited Liability Company;
13. KADEX - Kazakhstan Defense Exhibition.

## Units:

1. Mln tenge - million tenge;
2. Bln tenge - billion tenge;
3. Thous.tenge - thousand tenge.



