



KAZAKHSTAN ENGINEERING  
NATIONAL COMPANY

JSK «NATIONAL COMPANY  
«KAZAKHSTAN ENGINEERING»

# ANNUAL REPORT 2016



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## ADDRESS BY THE PRESIDENT OF THE BOARD OF DIRECTORS OF THE JSC «NC «KAZAKHSTAN ENGINEERING»



### ***Distinguished readers of the annual report, Colleagues, partners!***

It is a great honour for me to address you as Chairman of the Board of Directors of the largest mechanical company in Kazakhstan, the JSC «NC «Kazakhstan Engineering».

The development of the JSC «NC «Kazakhstan Engineering» is inextricably connected with the development of Kazakhstan and the priorities said by the Head of State in a message to the people of Kazakhstan «Strategy» Kazakhstan-2050».

Last year the basic production and financial work data of the JSC «NC» Kazakhstan engineering" have grown to the level of 2015.

At the end of 2016, Kazakhstan Engineering has achieved more than 71 billion tenge in its implementation, which is more than 12 per cent higher than the previous year and has achieved a 13 per cent increase in productivity.

The State Defence order of the Republic of Kazakhstan has been successfully fulfilled.

In the context of financial and economic activities to improve financial sustainability and reduce external debt obligations, the JSC «NC «Kazakhstan Engineering» paid eurobonds in time.

This year, the JSC «NC «Kazakhstan engineering» will continue to work to strengthen financial sustainability by introducing best practices of liquidity, income and capital Management.

It should be noted that the JSC «NC «Kazakhstan Engineering» is the only engineering company in Kazakhstan which has high ratings from international rating agencies Moody and Fitch. Thus, in October 2016, the international rating agency Fitch confirmed high ratings at the level of BB + «stable».

A number of investment projects, «establishment of an electronics and optical production Centre», have been completed as part of the implementation of the objectives of the JSC «NC «Kazakhstan Engineering» for the development of the domestic engineering sector, «Development of naval shipbuilding at the AO»Ural Zenith Factory»to develop the production of a new class of ships of up to 600 tons and other large products» and «production of printed cards 5 of the accuracy class with the sewage treatment system and mechanical control equipment».

An important event of the year under review was the introduction of the Air-technical Centre in Astana, which is aimed at developing a high-tech production base for aviation maintenance.

At the same time, in 2016, enterprises in the JSC «NC «Kazakhstan Engineering» carried out research and development work on arms and military equipment.

New products in the field of naval weapons, anti-aircraft defences, and optical instruments for missile-artillery weapons have been developed. The production of combat wheel vehicles has been established, and the delivery of Arlan machines to the armed forces of the Ministry of Defence of the Republic of Kazakhstan has been carried out.

As part of the development of the production of civilian products, the supply of energy-engineering products to large enterprises of Russian concerns has been established.

During the last three years, the JSC «NC «Kazakhstan Engineering» has shown high results in the Samruk-Kazyna group of companies on the social stability rating. On the basis of the 2016 diagnosis, the social stability ranking of the JSC «NC» Kazakhstan Engineering» was 75%, which confirms the effectiveness of the policies in place for the development of human resources and the preservation of the stability of the labour collectives of the group of JSC «NC «Kazakhstan Engineering».

In 2017, the JSC «NC Kazakhstan Engineering» will continue to work to raise the long-term value of assets and to achieve strategic objectives, the quality of the state defense order, the export potential of military equipment, the privatization programme and the high standards of corporate governance.

***With respect, A.Mamin***

***Chairman of the Board of Directors of the JSC «NC «Kazakhstan Engineering»***

## ADDRESS OF THE CHAIRMAN OF THE BOARD OF THE JSC «NC «KAZAKHSTAN ENGINEERING»



### ***Distinguished readers of the annual report, Colleagues, partners!***

I am pleased to present to you the annual report of the «National company «Kazakhstan Engineering» (JSC «NC «Kazakhstan Engineering» for 2016.

Today, the JSC «NC «Kazakhstan Engineering» is a holding structure that combines engineering enterprises specializing in the production of civil and special products as well as dual-use products.

The subsidiaries of the JSC «NC «Kazakhstan Engineering» specialize in the current and major repair of individual items of weapons and military equipment. At the same time, there be offshore production facilities with a full production cycle for export, including to the far abroad.

In the reporting year, pursuant to the decision of the Government of the Republic of Kazakhstan from December 30, 2015, No. 1141 «About certain issues of privatization for 2016-2020 years», and in accordance with the plan for the restructuring of assets for 2016, approved by the Board of Directors of JSC «NC «Kazakhstan Engineering» from January, 29 2016 (Protocol No. 1), work on the transfer to a competitive environment of non-profile and non-effective assets has been started.

So, during 2016 assets for a total of 250.6 million tenge were sold.

An important value of the JSC «NC «Kazakhstan Engineering» was given to the development of export capacity. For example, in order to promote the products of the subsidiaries of the JSC «NC «Kazakhstan Engineering» to the external markets, in the reporting year, the JSC «NC «Kazakhstan Engineering» intensified its marketing activities. Thus, the subsidiaries of the JSC «NC «Kazakhstan Engineering» took part in the IV International Exhibition of arms and military equipment «KADEX-2016» and in the 2nd International Military-Technical Forum «ARMY-2016» (Russian Federation).

2016 was marked with anniversary dates for the JSC «NC «Kazakhstan Engineering». JSC «811 car Repair Factory» celebrated 40 anniversary, JSC «Petropavlovsk Heavy mechanical Engineering industry» 55 anniversary, JSC «Uralsk factory "Zenit"-75 anniversary, JSC «Semey Engineering»-40 anniversary.

On the eve of the celebration of the 25th anniversary of the independence of the JSC «NC «Kazakhstan Engineering» the first national championship of the «Drone Racing Kazakhstan» was organized, whose main purpose was the promotion of robotics and UAV, support children and youth research activities .

The subsidiaries of the JSC «NC «Kazakhstan Engineering», together with the development of their own production, contribute to the development of the country's regions, social stability, job opportunities and taxes in local budgets.

There is no doubt that all the workers in the group play a key role in the activities of the JSC «NC» Kazakhstan Engineering", working effectively as a team.

I Express my gratitude to the Sole shareholder, the Trustee, partners, investors and all employees of many thousands of workers of JSC «NC «Kazakhstan Engineering» for your loyalty and support, professionalism and ability to find relevant and timely solutions.

***With respect, Y. Idrisov***  
***Chairman of the Executive Board of the JSC «Kazakhstan Engineering»***

## About the report

### Reporting Principles

### Report borders

## REPORTING PRINCIPLES

JSC «NC» Kazakhstan Engineering «prepared the Annual Report for 2016 taking into account information on activities in the field of sustainable development.

The main task of the report is to inform stakeholders of the company's performance as well as its information transparency.

The report reflects the company's performance for the period from January 1 to December 31, 2016, taking into account the consolidated data of the company and its subsidiaries.

In preparing the report, the company was guided by the following principles:

**Accountability** - the company is aware of its accountability to the sole shareholder and trust manager for the growth of long-term value and sustainable development in the long term.

**Openness** - the company is open to meetings, discussions and dialogue, and seeks to build long-term cooperation with stakeholders based on mutual interests and to make the report comprehensible and accessible to a wide range of interested publications interested parties.

**Balance** - the report reflects the positive and negative aspects of the performance of the company.

**Accuracy** and reliability-the information provided in the report is compiled on the basis of documented data, in the preparation of sections of the financial and Economic report, the publications of the audited financial statements made in accordance with IFRS.

Respect for human rights-the company's employees are the main asset and the main asset of the company.

Timeliness-the preparation of the report is a planned one.

The present report will not be subject to an external independent assurance, but the company is aware that an external independent assurance will in the future improve the completeness, balance, credibility and performance of the company's team, as well as meet the requirements of the stakeholders.

In this regard, the company plans to introduce a practice of external assurance in the future.

The report is available in the state, Russian and English languages and will be posted on the company's corporate web site.

Paper copies of the report can be made available to interested parties.

By publishing the report, the company looks forward to the continuation and expansion of the constructive public dialogue and welcomes the recommendations of all the parties concerned.

## REPORT BODERS

The report structure includes a description of the company's activities in the following areas: corporate management, finance, risk management, sustainable development management, stakeholder engagement, investment development, labour protection and personnel management.

At the same time, financial indicators are disclosed to the subsidiaries of fifty per cent or more of the shares owned by the company (the subsidiaries).





**KAZAKHSTAN ENGINEERING**  
NATIONAL COMPANY



# OVERVIEW OF ACTIVITIES

Overview of the mechanical engineering industry

About the company

Company Group Geography

The activities of the Company's subsidiaries in figures

Key events

Financial performance

Privatization programme

Investment activities of the company

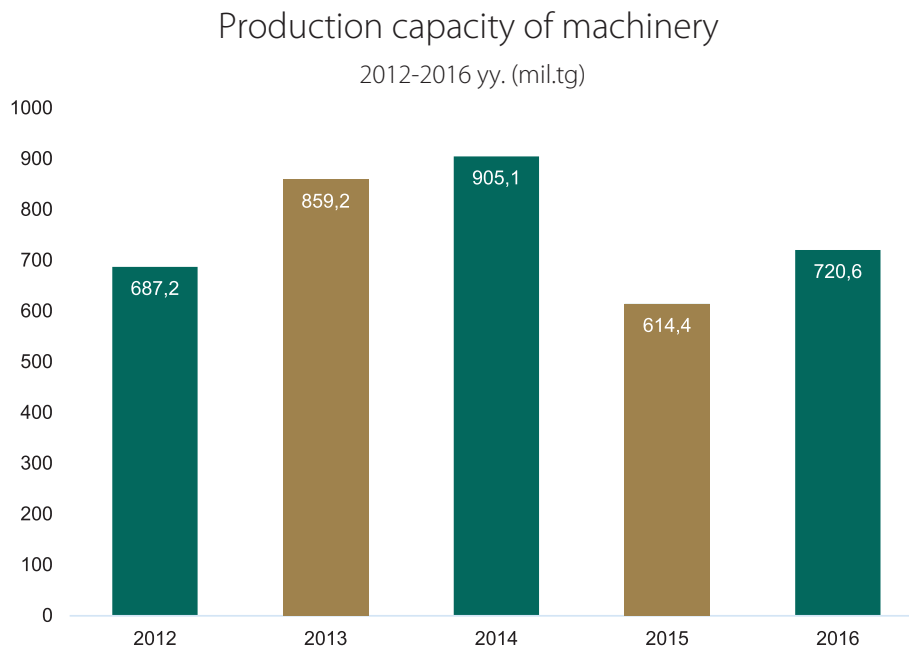
Promoting international cooperation

Company plans and goals for future periods

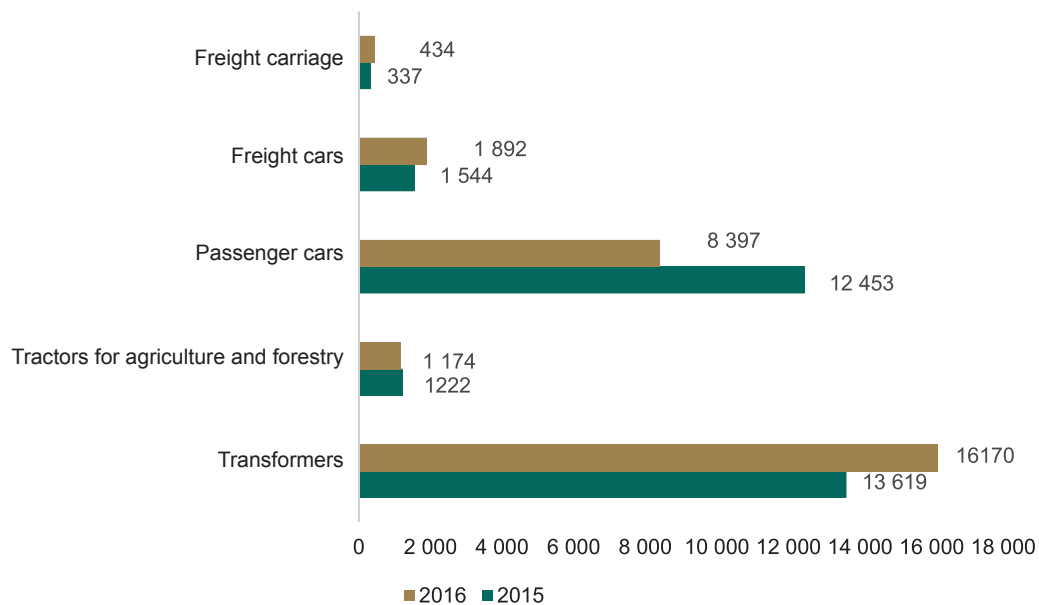


## INDUSTRY OVERVIEW

The production of mechanical machinery in the Republic of Kazakhstan in 2016 was 720.6 billion Tenge.



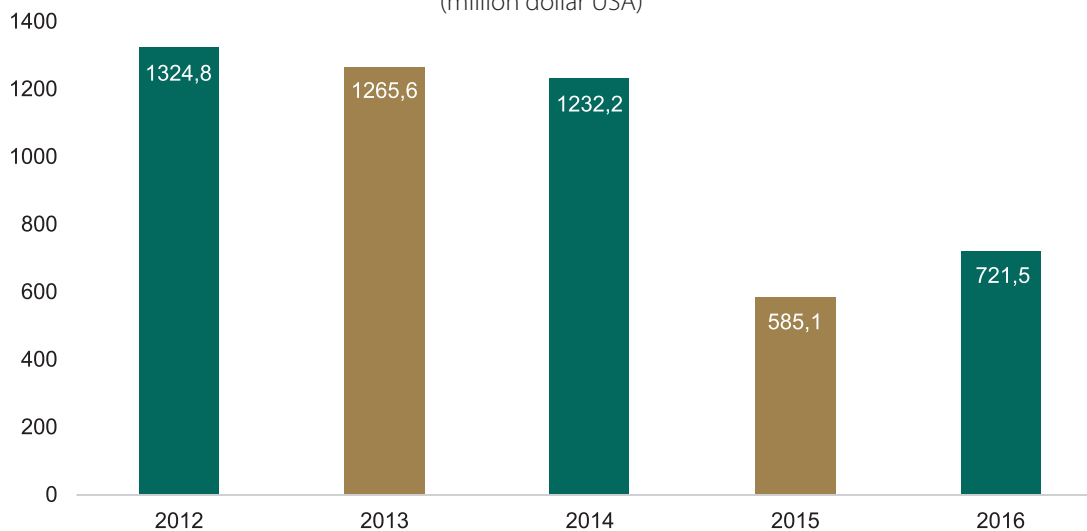
### Output of key engineering products (PCs.)



## Export and import of mechanical engineering products

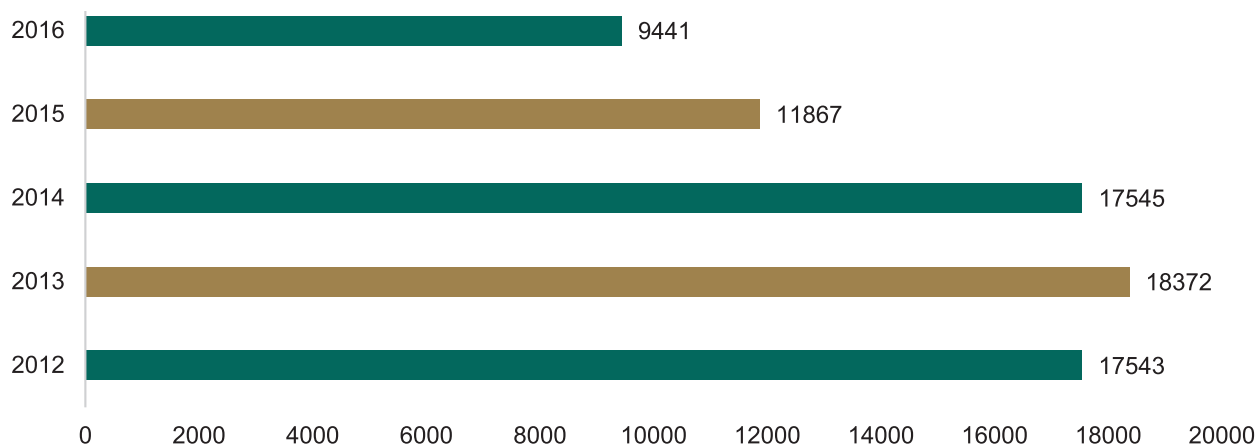
Exports of engineering products over 2016 exceeded the 2015 export levels by 23.3 per cent, reaching 721.5 million. Dahl. United States. The main reason for the increase relates to the growth of exports of individual product lines.

Trends of the export of engineering products 2012-2016.  
(million dollar USA)



Imports of mechanical engineering products for 2016 dropped by 20.4%, amounting to 9.4 billion. \$. United States. The main reason for the reduction is the general deceleration of trade with key trading partners, lower capacity to pay in the domestic market

Dynamics import mechanical engineering products машиностроения 2012-2016 уу.  
(Million dollar. USA)





# KAZAKHSTAN ENGINEERING

## NATIONAL COMPANY

## About the company

The «National company «Kazakhstan Engineering» (Kazakhstan Engineering) was established in accordance with the decision of the Government of the Republic of Kazakhstan of 13 March 2003 No. 244 «On certain issues of the defence and industrial complex of the Republic of Kazakhstan» with a view to improving the system of administration of the Republic of Kazakhstan's defence and industrial complex, by including in the company the defence and military factories of the Ministry of Defence of the Republic of Kazakhstan.

In October 2006, state-owned shares of the Company (100%) were passed in payment of the share capital of JSC «Holding «Samruk»».

In September 2009, the shares of the Company were passed to trust management of the Ministry of industry and trade of the Republic of Kazakhstan.

In June 2010, the shares of the Company were passed in trust management of the Ministry of Defence of the Republic of Kazakhstan in order to improve management of defence industry of the Republic of Kazakhstan.

In December 2016, the shares of the Company were passed in trust management of the Ministry of Defense and the aerospace industry of the Republic of Kazakhstan.

The company is a holding structure to provide a single financial, industrial and technological policy at the largest machine-building enterprises, specializing in the production of special and civilian products and dual-use goods.

In 2016, the international rating agency Fitch Ratings confirmed the company's credit rating at the BB + level (forecast «stable»).

Total number of company's declared and placed shares, including:

Simple shares of 21 476 802 pieces;

There are no privileged shares.

The nominal value of 1 shares is 1 000 tenge.

The company's development strategy for 2013-2022 years, approved by the company's board of Directors decision of 4 November 2013, Protocol No. 11 (hereinafter the Company development Strategy).

As part of the monitoring of the company's development strategy, the Board of directors in 2014 and 2015 has been briefed on its implementation. Thus, the decision of the Board of Directors of the company of 30 June 2015 (Protocol No. 6) and the decision of 14 July 2016 (Protocol No. 7) reviewed the accounts for the implementation of the Company's development strategy for 2014 and 2015, respectively.

The decision of the Board of Directors of the company of 24 May 2016 (Protocol No. 1) approved a plan of activities for 2016-2020 years to realize the expectations of the sole shareholder of the company, which included an activity to update the company's development strategy and approval by its Board of directors of the company.

In this regard, given that the company was assigned the task of updating the company's development strategy for 2013-2022 years, and taking into account the fact that numerical values and individual activities were not relevant, monitoring of the implementation of the company's development strategy after 2016 was not implemented.

However, during 2016, the company worked to update the company's development strategy. For example, the company's board of Directors decision of 3 November 2016 (Protocol No. 9), the development strategy of the company has been noted and the decision of 14 December 2016 (Protocol No. 10) has been pre-approved.

### Mission and Vision

The mission of the company is to realize the strategic interests of the State in the development of the engineering industry by effectively managing the assets and increasing the long-term value of the organizations that comprise the company group.

### By the year 2022 the company will be represented as:

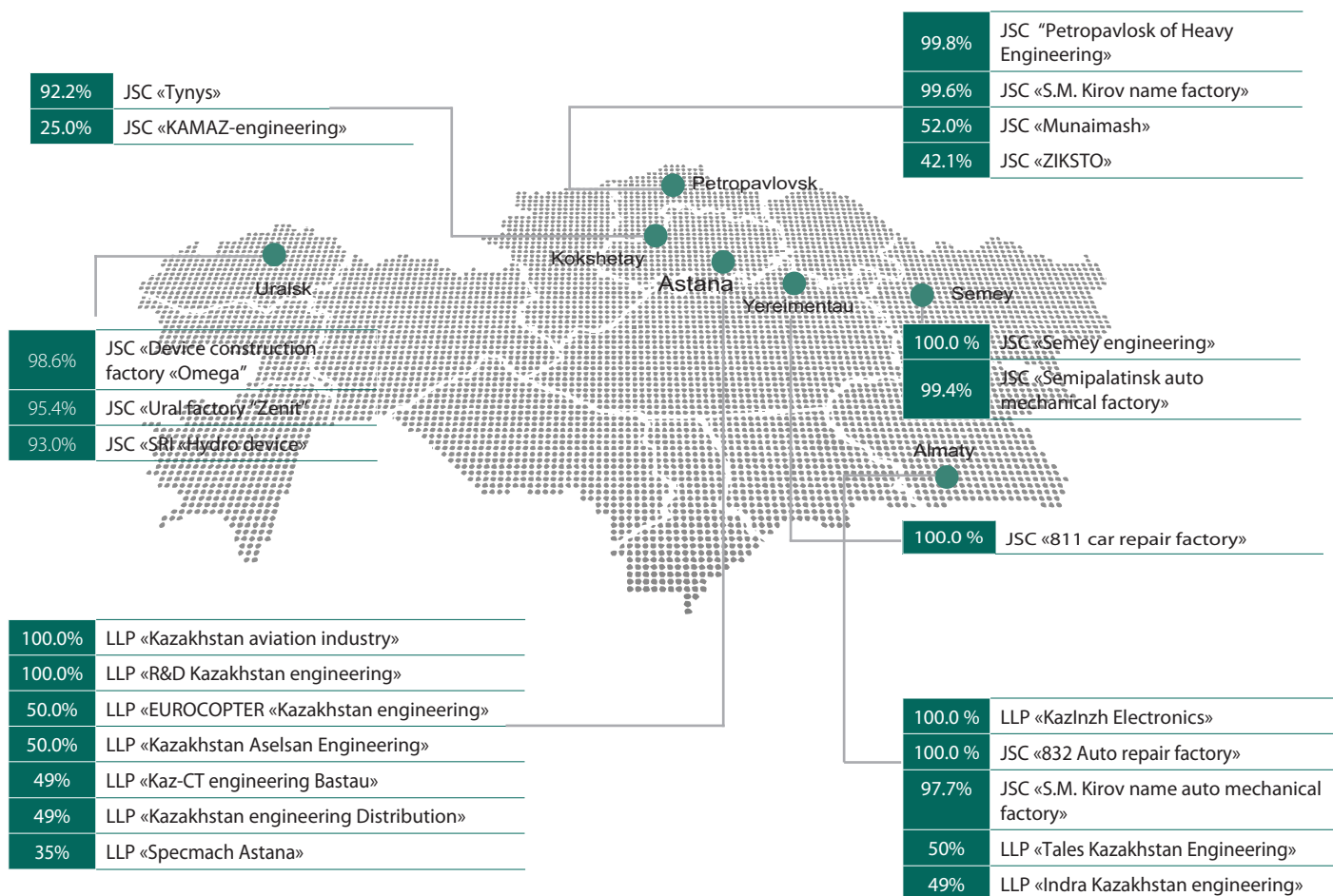
An efficient mechanical holding unit, combining a number of industrial enterprises that produce competitive engineering products for all sectors of the economy, including the defense and industrial complex, the leader of the engineering services market of Kazakhstan, as well as the centre of competence in the field of high technology and the generally recognized expert in the sectors of their specialization.

The vision of a company can be achieved by modernizing and introducing modern technologies for the production of competitive, knowledge-based products, as well as investment projects with leading foreign partners.



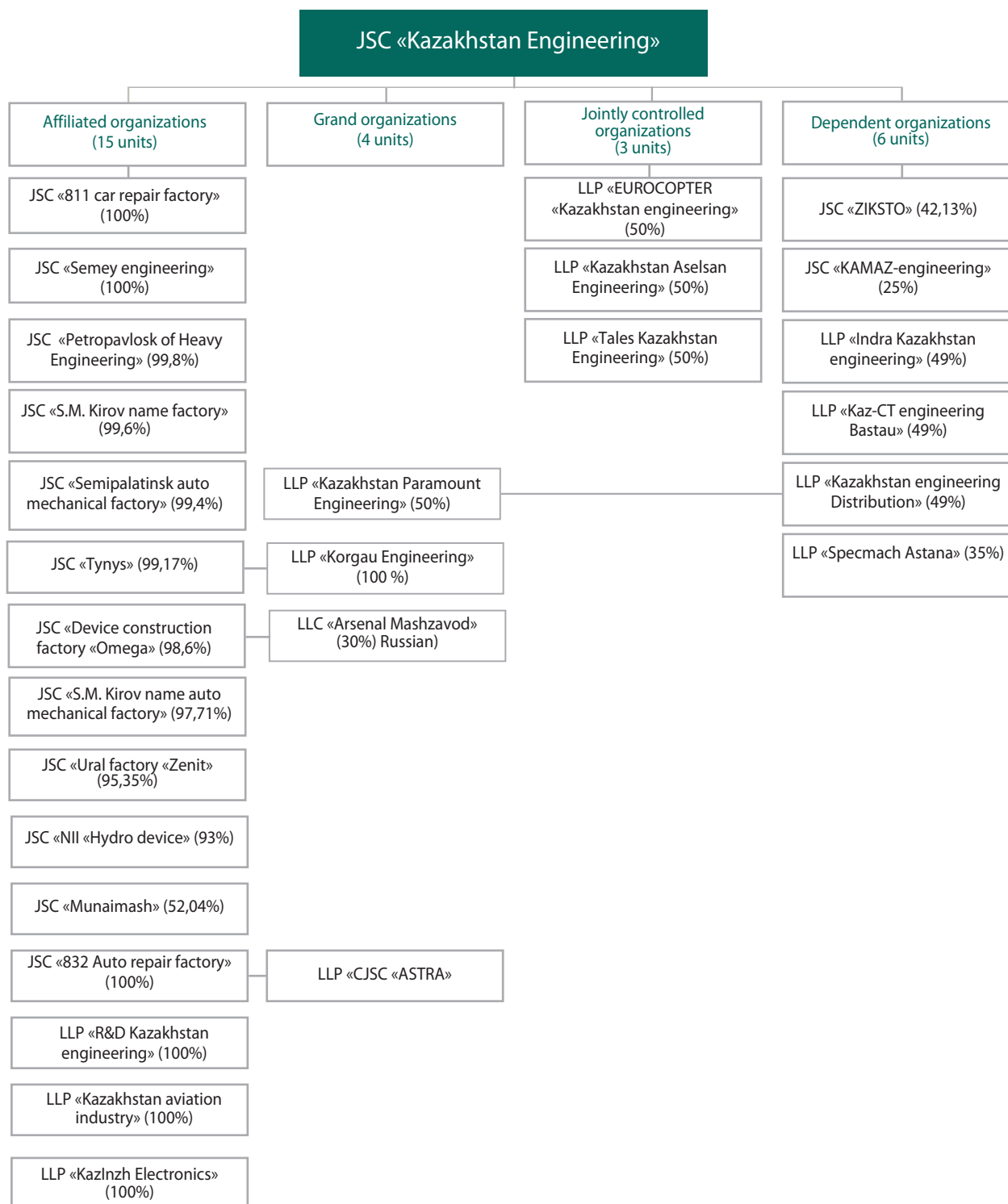
## Company Group Geography

The structure of the asset portfolio of the JSC Kazakhstan Engineering «NC» is the structure of a vertically-integrated company, organized by functional principle, with subsidiaries, dependent and jointly controlled organizations carrying out the substantive activities and having a geographical presence throughout the Republic of Kazakhstan.



# Structure of the assets of the JSC «NC» Kazakhstan Engineering

As of 31.12.2016 year







№ Name of the organizations Activities

**Affiliated organizations  
(Ownership of more than 50 per cent of shares/shares)**

1	JSC «811 Repair plant KI»	Repair of truck and track vehicles, engines and aggregates, modernization and refurbishment of automotive equipment
2	JSC «Semey engineering»	Repair of weapons and military equipment, refurbishment of engines of various types
3	JSC «The Petropavlosk of heavy engineering»	Production of drilling and overhaul equipment for boreholes, refineries and petrochemical plants, travel and mechanization tools for repair and maintenance of railway tracks
4	JSC «S.M.Kirov name factory»	Production and maintenance of navigational systems and control panels for the railway industry; Management and automation units for the oil and gas complex, etc.
5	JSC «Semey mechanical plant»	Manufacture of a Caterpillar tractor vehicle on the base of the GT-T, its modifications and the production of its spare parts, the products for the railway industry
6	JSC «Tynys»	Manufacture of aircraft, fire extinguishers, medical equipment, production of polyethylene pipes, protection for power structures
7	JSC «Instrument plant «Omega»	Production of water purification plants, products for the railway industry; Digital PBX and component parts, telephone machines; consumer goods, etc.
8	JSC «Mechanical plant name S.M. KIROV»	Production and maintenance of marine submarine weapons and hydraulics and combustion automatics for ships; Pnevmooperatorov for extractive industries; Spare parts for the railway industry
9	JSC «Ural plant «Zenit»	Manufacture and repair of boats and ships; Design and fabrication of steel structures, spare parts, etc. For the oil and gas complex

10	JSC «NII «Hydroinstrument»	Design and research work, as well as the production of marine and river boats, craft and submersible vehicles, ground and air robots, underwater survey equipment and repair of pipelines and underwater objects
11	JSC «Munaimash»	The booming depth pumps for the oil and gas sector; Consumer goods.
12	JSC «832 Motor plant K1»	Repair of automotive equipment
13	LLP «R&D Kazakhstan Engineering Centre»	Development of new types of special products for enterprises in the defence and industrial complex
14	LLP «Kazakhstan Aviation Industry»	Aviation Equipment production and maintenance
15	LLP «Kazinzh Electronics»	Modernization and overhaul of weapons, dual-use goods, production of modern communications and electronics products, assembly of computer equipment

### Jointly controlled organizations (Ownership of 50% of participation)

1	LLP «Eurocopter Kazakhstan Engineering»	Manufacture, assemble, reassemble after transport and maintenance of helicopters, distribution and sale of helicopters
2	LLP «Tales Kazakhstan Engineering»	Manufacture and maintenance of electronic equipment, systems and software; Manufacture and maintenance of radio communications equipment for the defence market
3	LLP «Kazakhstan Aselsan Engineering»	Manufacture of electronic optical devices



### Dependet organization (ownership less than 50% of shares/participation)

1	JSC «ZIKSTO»	Repair of freight railway wagons, repair of wheeled pairs with change of elements
2	JSC «KAMAZ- Engineering»	Production and maintenance of buses, vehicles, special technique and spare parts
3	LLP «Kazakhstan Engineering Distribution»	Implementation of company group products, attraction of investments, participation in public programmes and tendering for equipment
4	LLP «Indra Kazakhstan Engineering»	Production and maintenance of radar stations, electronic control systems and electronic intelligence
5	LLP «Kaz-Art engineering Bastau»	Provision of engineering services (joint venture with Singapore Technologies Engineering) Provision of engineering services (joint venture with Singapore Technologies Engineering)
6	LLP «Special car Astana»	Manufacture and repair of parts of spare parts for rail, oil and gas industries

# ACTIVITIES OF SUBSIDIARIES COMPANIES in numbers

2016  
123 4,5



**JSC «Semey engineering»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	6 017 757	6 093 337	6 031 823	489 424	11 506
2013	6 422 978	7 096 793	6 535 300	1 307 857	15 666
2014	10 327 545	8 822 389	8 559 325	2 873 388	13 586
2015	2 272 431	787 695	513 234	-976 184	905
<b>2016</b>	<b>549 988</b>	<b>344 136</b>	<b>208 400</b>	<b>(1 678 330)</b>	<b>395</b>

**JSC «Petrovavlosk Heavy Machinery Factory»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	5 108 200	5 739 349	5 670 365	229 425	4 493
2013	5 570 012	5 674 385	5 597 850	197 500	4 843
2014	4 400 002	4 093 530	4 015 158	136 408	3 721
2015	4 081 934	4 050 511	3 863 415	10 846	3 791
<b>2016</b>	<b>3 033 330</b>	<b>3 184 477</b>	<b>3 017 567</b>	<b>(315 495)</b>	<b>3 357</b>

**JSC «Kazinzh Electronics»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	2 447 489	2 415 556	2 326 242	5 172	24 974
2013	1 789 390	1 842 440	1 789 391	5 451	12 601
2014	643 116	689 187	643 117	9 830	8 462
2015	780 170	803 183	760 014	61 973	15 834
<b>2016</b>	<b>274 246</b>	<b>404 542</b>	<b>274 246</b>	<b>- 60 419</b>	<b>6 378</b>

## JSC «Auto mechanical factory names S.M.Kirova»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	6 504 981	6 164 528	6 114 875	329 317	10 164
2013	8 520 237	8 295 669	8 249 825	473 577	12 456
2014	6 709 207	6 987 225	6 944 772	405 708	11 711
2015	6 734 048	6 698 534	5 980 459	715 600	10 223
<b>2016</b>	<b>6 338 478</b>	<b>7 015 144</b>	<b>6 903 112</b>	<b>196 676</b>	<b>13 751</b>

## JSC «Semipalatinsk Engineering Plant»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	1 466 020	1 824 296	1 807 056	182 961	10 445
2013	1 898 148	856 322	843 963	6 870	8 628
2014	1 910 772	1 247 838	1 206 519	69 644	4 826
2015	1 306 002	1 055 186	1 000 274	- 61 216	5 782
<b>2016</b>	<b>1 314 422</b>	<b>1 269 866</b>	<b>1 246 365</b>	<b>1 799</b>	<b>8 041</b>

## JSC «Tynys»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	4 652 426	4 798 457	4 660 940	658 668	7 202
2013	5 583 012	5 839 329	5 771 931	528 255	8 198
2014	6 673 160	6 785 308	6 671 712	688 691	8 278
2015	4 937 954	5 114 522	5 039 140	479 272	6 470
<b>2016</b>	<b>3 694 735</b>	<b>3 742 574</b>	<b>3 694 735</b>	<b>226 223</b>	<b>5 181</b>

**JSC «Auto mechanical factory names S.M.Kirova»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	740 750	762 913	564 964	(311 192)	2 218
2013	527 526	881 798	806 097	(333 204)	1 570
2014	505 331	651 474	482 234	(433 981)	1 899
2015	528 079	646 989	476 151	(213 545)	1 928
<b>2016</b>	<b>2 115 243</b>	<b>2 290 098</b>	<b>1 813 325</b>	<b>118 323</b>	<b>6 210</b>

**JSC «Ural factory «Zenit»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	4 682 732	6 758 734	6 741 681	549 164	5 135
2013	5 223 529	5 243 294	5 224 778	332 406	5 528
2014	5 292 991	5 336 215	5 281 358	317 725	5 823
2015	3 237 530	3 358 689	3 247 745	140 891	3 653
<b>2016</b>	<b>4 938 024</b>	<b>5 060 563</b>	<b>4 948 000</b>	<b>220 253</b>	<b>5 510</b>

**JSC «NII «Hydro device»**

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	377 756	380 451	377 756	4 503	2 974
2013	472 646	476 398	472 646	18 385	3 376
2014	638 546	636 307	612 547	33 055	4 641
2015	1 240 121	1 287 929	1 240 121	75 228	8 159
<b>2016</b>	<b>2 061 401</b>	<b>2 142 214</b>	<b>2 061 401</b>	<b>110 179</b>	<b>12 125</b>

## JSC «Munaimash»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	1 685 834	2 392 671	1 669 931	80 877	12 925
2013	2 357 027	3 213 835	3 174 628	183 740	15 109
2014	2 790 259	3 472 059	3 193 291	210 307	20 211
2015	2 250 912	2 406 320	2 351 261	148 184	15 469
<b>2016</b>	<b>2 093 008</b>	<b>2 364 168</b>	<b>2 330 120</b>	<b>128 068</b>	<b>14 431</b>

## JSC «811 Repair plant KI»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	399 874	402 402	399 604	2 148	3 278
2013	394 544	399 169	394 387	11 209	2 989
2014	469 003	478 540	468 783	41 748	4 223
2015	512 863	605 404	512 469	73 155	4 271
<b>2016</b>	<b>210 552</b>	<b>502 566</b>	<b>210 459</b>	<b>(74 055)</b>	<b>1 739</b>

## JSC «Device engineering factory «Omega»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	628 326	993 242	624 921	237 924	3 510
2013	615 118	656 371	617 760	1 795	2 674
2014	278 407	253 100	230 614	(88 526)	1 349
2015	170 996	228 761	189 065	(86 197)	1 119
<b>2016</b>	<b>125 628</b>	<b>145 571</b>	<b>125 628</b>	<b>(87 973)</b>	<b>1 610</b>



### LLP “Kazakhstan Aviation Industry”

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2013	-	517	-	(49 609)	-
2014	-	140 814	139 175	(2 312)	6 433
2015	-	2 064 370	2 050 334	85 005	85 993
<b>2016</b>	<b>-</b>	<b>1 833 928</b>	<b>1 750 606</b>	<b>(94 139)</b>	<b>51 488</b>

### LLP «R&D center «Kazakhstan engineering»

Year (fact)	Volum production (thousands. tenge.)	income-all (thousands. tenge.)	including: Income from sales (thousands tenge.)	Total profit (thousands. tenge.)	Productivity , thousands tenge/personnal
2012	153 036	153 335	149 501	(1 335)	4 372
2013	234 692	237 271	234 857	(36 340)	3 353
2014	148 404	150 520	148 404	(70 520)	3 905
2015	273 789	400 313	273 789	102 948	7 205
<b>2016</b>	<b>178 817</b>	<b>216 639</b>	<b>178 817</b>	<b>(131 106)</b>	<b>4 361</b>



## KEY EVENTS IN THE REPORTING PERIOD

2016 a number of events were marked for the JSC Kazakhstan Engineering «NC». The following calendar shows the major enterprise events of 2016.

### JANUARY

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The JSC «Kazakhstan Engineering» and «All Direction Gulf» (State of Kuwait) concluded a memorandum of understanding

### FEBRUARY

---

Voluntary reorganization of the JSC Kazinzh Electronics by converting to too kazinzh electronics

### APRIL

---

By the child organization of the JSC «Kazakhstan Engineering», the JSC «Zenit Factory», the Sarbaz of Project 0300 Factory No. 5, with a displacement of 240 tonnes

### MAY

---

Approved annual company Report 2015

Elected the Board of Directors of JSC Kazakhstan Engineering, new

### JUNE

---

Participation in the IV International exhibition of armaments and military technical equipment «Kadex-2016»

### JULY

---

The subsidiary organization of JSC «Kazakhstan Engineering»-AO «811 car repair Factory» celebrated the 40th anniversary year

By the subsidiary organization of the JSC «Kazakhstan Engineering»-AO, the «Zenith Factory», the first upgraded boat for special-purpose units of the armed Forces of the Republic of Kazakhstan was launched

The Subsidiary of the JSC «Kazakhstan Engineering», the JSC «The Heavy Engineering company», delivered too «Kazakhmys smelting» 15 panels for the disposal boiler

The Subsidiary of the JSC «Kazakhstan Engineering»-AO, the «Semipalatinsk engineering plant», initiated a diesel engine repair project for the first time

## SEPTEMBER

Participation in the II International military-Technical Forum «army-2016» (Russian Federation)

Implemented 49% of the share in the Charter capital, too IPB-Kirov (the dependent organization of the JSC «mechanical Plant.») M. Kirov «)

Participation of enterprises of the JSC Kazakhstan Engineering group in the IV Forum of the Engineering of Kazakhstan

The Subsidiary of the JSC «Kazakhstan Engineering», the JSC «The Heavy Engineering Company», celebrated the 55-year anniversary

Introduced the Air Technical Centre in Astana

## NOVEMBER

Approved the development Plan (Business plan) of JSC Kazakhstan Engineering for 2017-2021 years

# KEY EVENTS AFTER THE REPORTING PERIOD

## JANUARY

Elected Board of Directors of the JSC Kazakhstan Engineering, new

## OCTOBER

Implemented 3.99 per cent of the stock of shares of JSC Kazakhstan Engineering in the JSC «Aircraft Factory No. 406 hectares»

Implemented 2.67% of the «NC» of Kazakhstan Engineering's shares in the JSC «Aircraft Factory No. 405»

Implemented 26% of the share in the Charter capital of the LLP «SMP Group» (the dependent organization of the JSC «the Semipalatinsk Engineering plant»)

The AO «Kazakhstan Engineering» and the Engineering division State «Rosatom»-AO Atomenergomash signed a cooperation agreement

The AO «Kazakhstan Engineering» and the JSC «Angela Engineering Plant» signed the Energy Engineering Partnership Agreement

The Subsidiary of the JSC «Kazakhstan Engineering»-AO, the «Ural Factory», celebrated 75-year anniversary

## DECEMBER

Organized and hosted the first Republican Football Championship «drone racing Kazakhstan»

The Subsidiary of the JSC «Kazakhstan Engineering»-AO «families engineering» celebrated the 40-year anniversary

Repaid Evroobligaci in the amount of 200 million. United States dollars, previously attracted in 2013

Transfer of 100% of the stock of shares in the JSC Kazakhstan engineering to the trusteeship of the Ministry of Defence and aerospace Industry of the Republic of Kazakhstan

## FEBRUARY

The new organizational structure of the JSC «NCS Kazakhstan Engineering» has been approved and put into effect»

Made changes to the board of the JSC Kazakhstan Engineering

Implemented 100% of the «NC» Kazakhstan Engineering stock «in the AB» 832 Car repair Factory «

## Financial performance

The share of the company in the mechanical engineering of the Republic of Kazakhstan in 2016 was 9.9 %. The income from the company's group in 2016 grew by 137% in comparison with 2012, and the labour productivity rate was 14 478 thousand. Tenge per person.

### Operational and financial indicators Company Group Activities

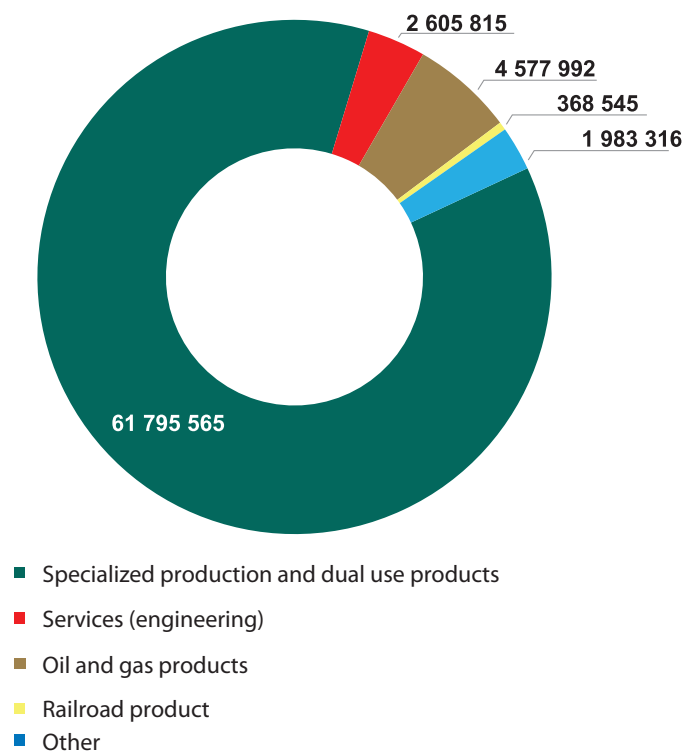
Indicators	2012	2013	2014	2015	2016	Dynamics growth 2016 year to 2012 year
Revenue from disposal (Billion, tenge)	52,2	44,8	38,5	63,5	71,3	137%
Assets (billion tenge)	45,9	74,1	89,1	114,1	83,9	183%
Financial result (Millions of tenge) *	4 558	3 083	917	-8 266	-2 752	-
Development expenditure (investment) (Millions of tenge)	9 651	3 552	6 720	4 822	2 746	28%
Productivity (Thousands of tenge/persons)	10 763	12 868	11 794	11 557	14 478	133%
Average monthly wage (thousands of tenge)	135,5	114,2	124,2	103,9	134,1	99%

\* **Financial result = Net income before deduction of minority share**

The consolidated sales of the company's products for 2016 in terms of 75.1 billion tenge amounted to 71.3 billion tenge or 95% of the plan (12% increase by 2015), including:

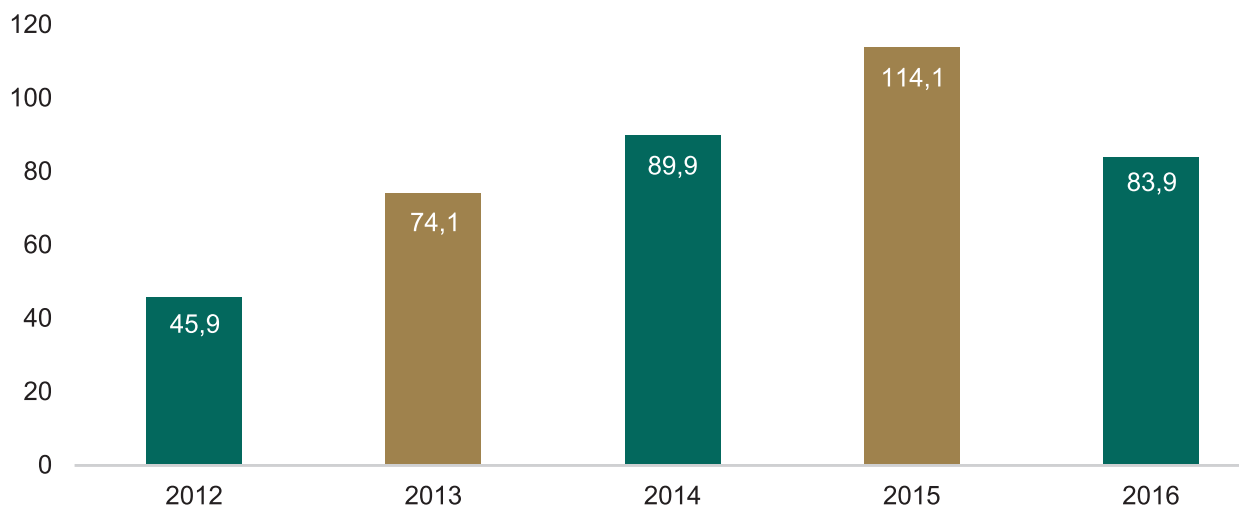
- by sales of specialized products and dual-use goods, the execution amounted to 61.8 billion or 103% of the plan as a result of execution of the state defense order
- by sales of civilian goods, the execution amounted to 6.9 billion or 57% of the plan;
- volume of services execution amounted to 2.6 billion tenge, which is 15% below what was planned for 2016 and 22% higher than in 2015. Profitability was (3.7)% for Plan (5.0)%. In 2015, this figure was (11.8)%.

### Income structure



The share of exports in implementation in 2016 was 5.5 per cent of total implementation.

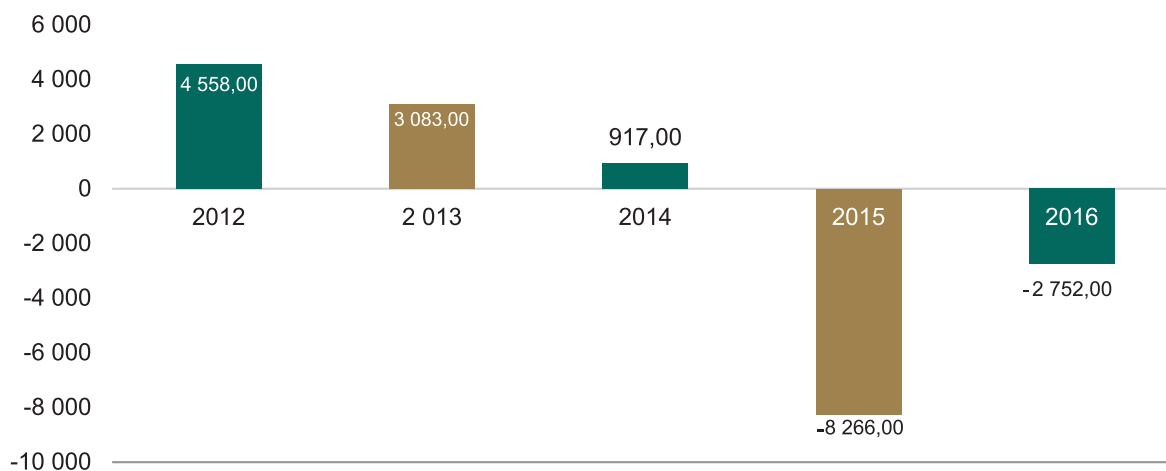
### Activs (billion.tenge)



The consolidated assets at the end of 2016 amounted to 83.9 billion. Tenge. The increase in assets was 183 per cent compared to 2012. The main factors that have influenced the change in the balance sheet of 2016 are the following:

- Loss of assets by 30 180 million Tenge and reduction of obligations of 27 378 million Tenge by 2015, due to external bond repayments;
- Growth of fixed assets by 3 499 million Tenge as a result of the operation of the administration and production building as part of the investment project «Air and Technical Centre in Astana», on the basis of the too «Kazakh aviation industry».

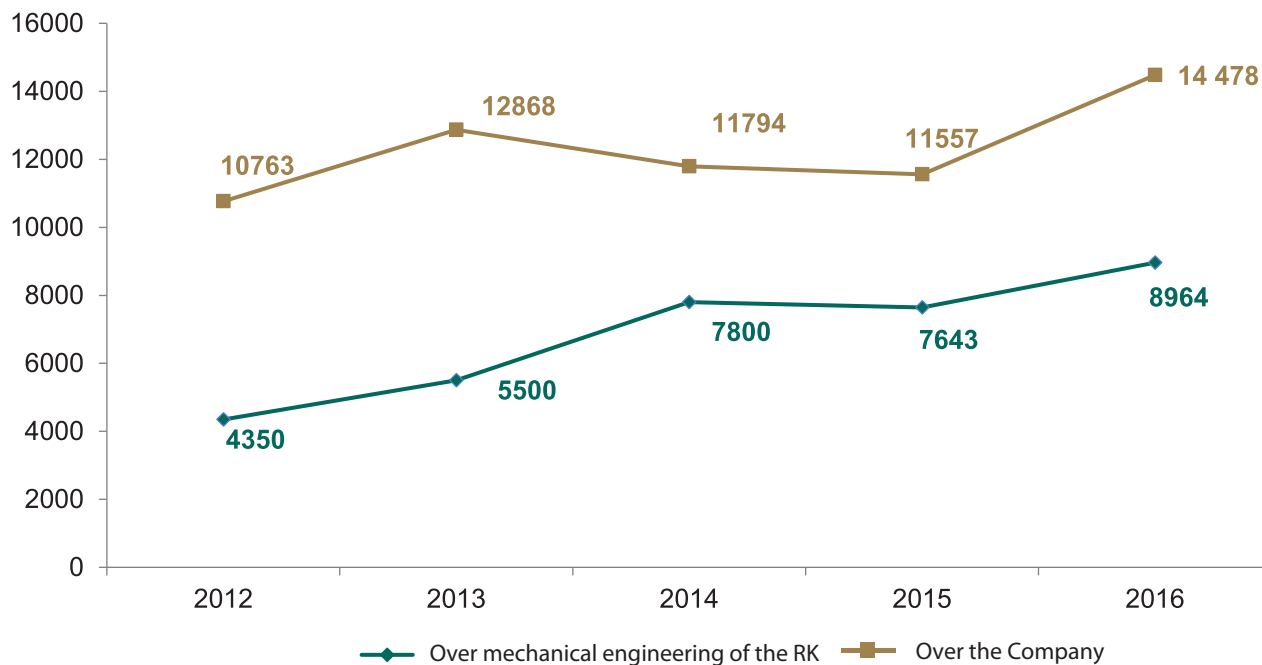
### Financial results (million. tenge)



The net consolidated loss was 2 752 million. Tenge in Plan (4 032) million Tenge. The main factors influenced to the reduction of the damage to the planned indicator are:

- The Rate of exchange for 2016 is 1 068 million. Tenge;
- Income from funding in the amount of 2 909 million Tenge;
- The total profit at corporate center 402 million. Tenge;

### Productivity (Thousands of tenge per person)



At the end of 2016, productivity in the company reached 14 478 thousand. Tenge per employee. Growth to 2015. 13%, 2012. 33%.





## PRIVATIZATION PROGRAMME

Pursuant to the decision of the Government of the Republic of Kazakhstan dated December 30, 2015, No. 1141 «about certain issues of privatization for 2016-2020, Plan for the restructuring of the company's assets for 2016 was approved by the decision of the Board of Directors of the company dated January, 29 2015 (Protocol No. 1). During 2016 the following work was carried out to realize the company's assets.

In 2016, bidding was carried out and four (four) assets of the company were sold: LLP «MBM Kirovets» (49% shares) for 161 million tenge; LLP «SMPGroup» (26% stake) for 115 thousand tenge; JSC «Aircraft Repair plant № 405» (2,67%) for 61 million tenge; JSC «Aircraft Repair plant № 406 GA» (3.99% of the shares) over 26 million tenge.

1 (one) asset eliminated: LLP «Kamaz-Semey» (49% of the share).

It should be noted, however, that the decision of the Government of the Republic of Kazakhstan dated April 11, 2017 No. 194 «About the amendment of the Decree of the Government of the Republic of Kazakhstan No. 1141 dated December 30, 2015 "About certain issues of privatization for the period 2016-2020» to the list of organizations, subject to competitive environment the four assets of the company are added: JSC «Machine-building plant named after S. M. Kirov», JSC «Semipalatinsk machine building plant», JSC «Tynys», LLP «KAZAKHSTAN AVIATION INDUSTRY».

In 2017 7 (seven) of the company's assets are at the implementation stage :

-through JSC «ZIKSTO» (42,13%), JSC «Instrument-making plant «Omega» (98,5%), LLP «Indra Kazakhstan engineering» (49% stake);;

-a method to be determined on the recommendation of an independent consultant: "Machine-building plant named after S. M. Kirov», JSC «The Semipalatinsk Engineering plant», JSC «Tynys», JSC «Kazakhstan aviation industry».

3 (three) assets of the Company: LLP «Thales Kazakhstan engineering» (50% stake); LLP «KAZ-ST Engineering Bastau» (49% interest) and LLP «Specmash Astana» (35% stake) are at the stage of liquidation . 1 (one) company asset is at the reorganization stage: JSC «Kazinzh Electronics» (reorganization is being carried out through accession to the "Special construction-Technology Bureau "Granit").

## INVESTMENT ACTIVITIES OF THE COMPANY

In accordance with the company's investment policy, the purpose of the company's investment is to maximize the company's value in the long term.

The main principles of the investment policy are:

- Integration of strategic objectives into investment decisions;
- The use of investment valuation tools in investment decisions;
- The use of project management tools and procedures in the management of investment activities;
- The Balance of budgetary control and the degree of managerial freedom of managers responsible for the company's investment performance;
- The obligation to monitor, assess and analyse investment performance.

### **In 2016, the company completed the following investment projects:**

«Establishment of an electronics and optical equipment centre»

The project aims to meet the needs of the defence industry of the Republic of Kazakhstan in electronic optics through the creation of local technological production as part of a strategy to increase the Kazakh content of goods and services in the domestic market of Kazakhstan.

Within the project:

- the construction of a building area of 10 thousand m<sup>2</sup>;
- acquisition of high-tech equipment for the production of electronic optics;
- 115 permanent jobs have been created;
- In the period 2014-2016, 9 812 electronic optical devices for the needs of the armed forces of the Republic of Kazakhstan have been implemented.

### **«Development of naval shipbuilding at the JSC "Ural plant "Zenit" to develop the production of a new class of dry-weight vessels up to 600 tons and other large products»**

The project aims to meet the needs of the defence industry in the new class of vessels with a dry weight of up to 600 tons and other large products.

Within the project:

- Reconstruction of the factory's production plant;
- Two bridge cranes and a multigiboch-right machine have been purchased;
- 30 permanent jobs created.

### **«Production of printed boards of 5 accuracy classes with sewage treatment system and mechanical control equipment»**

The project is aimed at the production of the 5th generation, which is one of the main components

of cryptographic data protection. Within the project:

- acquisition of high-tech equipment for the production of 5-generation printed circuit boards;
- 13 permanent jobs created.

The above investment projects aimed at achieving the Company's goals for the production and sale of products for defense, civil use in the framework of import substitution, provision of domestic needs and the export of products.

In 2017, the company continued to implement the investment project:

**«Establishment of an air technical centre in Astana»**

The project aims to establish a specialized aviation company in Kazakhstan, which is providing services, capital and maintenance for the aviation equipment of Kazakhstan. All these activities are now carried out in the enterprises of the Near Abroad (Russian Federation, Belarus, Ukraine).

**In addition, in 2017, the company is considering the following investment projects:**

- (1) organization of investment models.
- (2) Production of composite division of JSC «Tynys».
- (3) Modernization of the procuring production of the JSC «Ural plant Zenit».
- (4) Production of plastic, silicone and rubber products of the JSC «Tynys».
- (5) Comprehensive modernization of the production of company subsidiaries.

Individual investment projects are strategic and are aimed at developing the defence and industrial complex of the Republic of Kazakhstan in accordance with the programme for the technological modernization of the armed forces.

Investments in investment projects from Kazakhstan are made by the company with funds from the Republican budget, their own funds, from other sources.

## PROMOTING INTERNATIONAL COOPERATION

During the reporting period, in the framework of the development of international and military-technical cooperation, more than 220 meetings of management and representatives of the Company were held with delegations of the armed forces, enterprises and organizations of the defence and industrial complexes of 35 foreign States (compared with the previous year: 120 and 17 respectively).

In general, as a result of the implementation of the PTS agreements reached in the company's international activities, there is considerable potential for innovation and technological development in the enterprise of the OPK and the production of their products in international markets.

At the same time, it should be noted that one of the main instruments in the difficult task of promoting export products to international markets is the continued and active participation of the enterprises of the OPK in the arms and military equipment exhibitions, as well as in specialized forums.

Thus, in 2016, the company was directly involved as an active ekspozitsioner of Kazakhstan's mechanical engineering products in two major events:

### **In the 4th International Exhibition of Weapons and military technical equipment «KADEX-2016» (Astana).**

In the framework of the exhibition 20 subsidiaries of the Company exhibit 44 of the natural sample in an open area, 139 natural sample and 24 layouts in indoor pavilion.

In accordance with the objectives, the development and samples of joint-venture weapons with our foreign partners, as well as the own production of subsidiaries within the framework of internal cooperation, have been successfully demonstrated, in particular:

- modernized Mi-17 helicopter of the JSC «Aircraft Factory No. 405» production, using specialized equipment of JSC «Kazakhstan Aselsan Engineering»;
- Modernized tanks of «Semey engineering» production in cooperation: T-72 B with JSC «KAE» and T-72 A with «Elbit Systems» (Israel);
- Armoured evacuation transport vehicle (BRJETM) based on BMP-1, armoured repair escape tractor (carjacking), based on tank T-72, Conversion wheel vehicle 8x8 manufactured by the JSC «Semey Engineering»;
- Armoured wheel vehicles «Arlan», «Barys» 8x8 production of JSC «Kazakhstan Paramount Engineering» in cooperation with Paramount Group (South Africa), JSC «Kamaz» (Russia), «Aselsan» (Turkey), JSC «Heavy Engineering Company of the Russian Federation», JSC «Scientific Production corporation «Uralvagonzavod» (Russia);
- stabilised remotely-controlled weapon module «SARP», optics and collimator sights for various purposes of production of LLP «Aselsan Kazakhstan Engineering»;
- Stabilized remote-controlled sarps, optical instruments and collimator sights of various

production destinations LLP «Kazakhstan Aselsan Engineering»;

- helicopters EU-145 of the production LLP «Eurocopter Kazakhstan engineering» and helicopter maintenance services;
- radio station «Karagaj», «Akterek», «AK Kaiyn», R-140, R-409, R-417 production of the JSC «Factory named after Kirov» ;
- radar station «Nur» of LLP «SKTB «Granit» in cooperation with «Thales» (France);
- Vehicles «Kamaz» of various purposes and specifications of the production of the JSC «Kamaz Engineering».

At the same time, in accordance with the exhibit programme, selected product samples (bkm «Arlan», EU-145 helicopters) participated in demonstrations daily. Thus, in practice, visitors and invited guests have been directly acquainted with the combat and technical capabilities of the products offered.

The exhibit also held meetings and negotiations with strategic and potential partners from abroad and Kazakhstan, and signed 18 agreements, memoranda and contracts for the production of products and the provision of services by the company.

### **In the 2nd International Military and Technical Forum «Army-2016» (Cuban Moscow region).**

In the event, the following organizations and enterprises participated in the company's delegation: LLP «Kazakhstan Aselsan Engineering», LLP «Kazakhstan Paramount Engineering», JSC «Machine-building Factory named after M. Kirov», LLP «Factory named after M. Kirov», JSC «Tynys», JSC «Aircraft Factory No. 405».

The company's exhibition pavilion is 184 square metres. The weapons and military technical equipment, including electronic-optical and teplovizion devices, mobile communications, polygonal equipment, radios, etc. (in kind-46 units, layouts-13 units) were presented for exhibition.

At the open site, a static exhibit demonstrated the armoury of the production of too «Kazakhstan Paramount Engineering», including armoured wheel vehicles «Arlan» with a wheeled formula 4 and bars with a wheeled 8. In the demonstration dynamic show at the Alabino Polygon, the running and firing capabilities of BKM «Arlan» were demonstrated.

For the first time in the history of the company's participation in international exhibitions abroad, the products produced by the company's subsidiary took direct part in the dynamic display in the polygon conditions to specialists and visitors. In doing so, it showed excellent running and firing capabilities, thus confirming the stated high dynamic and tactical characteristics.

The outcome of this forum is the management of more than 25 meetings and negotiations with foreign companies and organizations, which resulted in the signing of a number of agreements and memoranda, including a general cooperation agreement with the JSC «Rosoboroneksport» (Russian Federation).

In addition, the participation of the company's delegations and its subsidiaries in various international exhibitions and business forums, as well as in the work of the intergovernmental commissions on Economic and scientific and technical cooperation among States, was no less

important in the international activities of the company in 2016. The company participated directly in 15 such events.

Given the specificity of the company's enterprises, the information on the arrangements and directions for further cooperation is classified as confidential.

## COMPANY PLANS AND GOALS FOR FUTURE PERIODS

In the course of 2017, the company plans to further implement the decision of the Government of the Republic of Kazakhstan of 30 December 2015, No. 1141 «About certain issues of privatization for the period 2016-2020 «:

- Implementation of 7 (seven) assets of the company: JSC «Ziksto», JSC «Instrument factory» «Omega», LLP «Indra Kazakhstan Engineering»; The Machine-building factory named after M. Kirov, JSC «The Semipalatinsk Engineering plant», JSC «Tynys», LLP «Kazakhstan aviation industry»;

- Liquidation of 3 (three) assets of the company: LLP for Kazakhstan Engineering; LLP «Kaz-art engineering Bastau» and LLP «Spetsmash Astana»;

- Reorganization of LLP «Kazinzh Electronics» by joining the «Construction Special Technology Bureau «Granit».

- approval of the updated Company's development Strategy for 2013-2022.

- modernization and renewal of production of the Company's subsidiaries and creating new jobs in the following areas:

- Replacement of physical and morally obsolete equipment by acquiring highly technological equipment, specialized transport and machinery;

- Technology transfer;

- Reconstruction, major repairs of production facilities and equipment, optimization of internal transport flows.

- The development and implementation of special-purpose software.

- Create service centers that are based on the company's subsidiaries to organize service and outsourcing



**KAZAKHSTAN ENGINEERING**  
NATIONAL COMPANY

# CORPORATE GOVERNANCE

Basic principles and structure of corporate governance

Board of Directors (composition, short biography)

Activities of the Board of Directors

Remuneration of members of the board of Directors

Internal Audit Service

Corporate Secretary

Executive Board (composition, short biography)

Activities of the Board

Remuneration of the board

Secretary of the Board

Internal control and risk management system

Quality Management system









## BASIC PRINCIPLES AND CORPORATE GOVERNANCE STRUCTURE

The company's corporate governance system is based on the legislation of the Republic of Kazakhstan, the company's constituent and internal documents.

However, one of the main internal documents of the company is the corporate governance code of the JSC «Kazakhstan Engineering», which was approved by the Board of the JSC Samruk-Kazyna of 27 May 2015 (Protocol No. 22/15).

Corporate governance is regarded as one of the most important elements of responsible development and decision-making, meaningful and influencing stakeholders. The company ensures that corporate governance practices, both within the company and its subsidiaries, are consistent with best corporate governance practices and are oriented towards international principles and standards in this area, constantly increasing the transparency of their activities.

To date, the company has achieved significant success in the development of corporate governance. Thus, a number of important initiatives have been taken in this area, as well as new and updated internal documents of the company and its subsidiaries.

The relationship between a company and its subsidiaries and dependent organizations is carried out within the framework of approved corporate procedures, through the relevant organs of the company and its subsidiaries and dependent organizations.

Improving corporate governance in line with best principles and world practice is one of the company's priorities.

In general, the corporate governance system aims to increase transparency, establish and maintain a reliable and effective relationship with the sole shareholder, trustee and investor, and is based on the following principles:



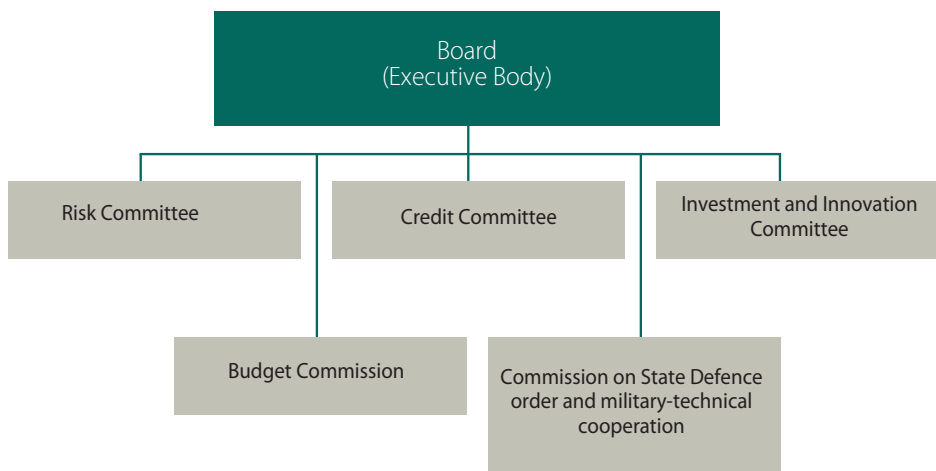
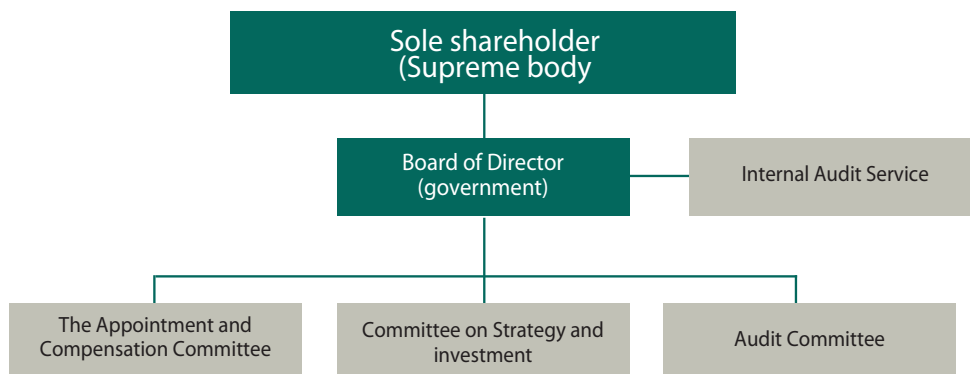
- Protection of the rights and interests of the sole shareholder, trustee;
- Effective management of the company by the Board of directors and the Board;
- The transparency and objectivity of the company;
- The rule of law and ethics;
- Effective dividend policies;
- Effective personnel policy;
- Protection of the environment;
- The safety of working conditions;
- Resolution of corporate conflicts and conflicts of interest;
- Responsibility.

One of the key documents that defines the company's corporate governance principles and its development is the corporate governance code of the company, based on the corporate governance principles recognized by the world community.

In order to implement the provisions of the new corporate Governance code, the Board of Directors decision of 1 April 2016 (Protocol No. 3) approved a plan of activities to improve corporate governance and implement the code for 2016-2017 years.



## According to the Charter, the organs of the company are publications:



# BOARD OF DIRECTORS



The overall direction of the company is exercised by the Board of directors, except in the case of the exclusive responsibility of the sole shareholder.

The Board of Directors exercises its powers under the laws of the Republic of Kazakhstan «On joint stock companies», «On the National Welfare Fund», «On state property», on the statute and on the company's internal documents.

The activities of the Board of directors are based on the principles of reasonableness, efficiency, activity, integrity, honesty, responsibility, accuracy, professionalism, objectivity and regularity.

The member of the Board of Directors of the Company in 2016 were the following:

Члены Совета директоров	Статус и срок полномочий	Посещаемость
SAURANBAYEV Nurlan Ermekovich	Chairman of the Board of Directors Term of office: With 27.01.2015-04.05.2016	3/3 (100%)
RAIMBEKOV Sailaukhan Gazizovich	Member of the board of Directors with 2016 Chairman of the Board of Directors With 04.05.2016	10/10 (100%)
BAISEITOV Bakhytbek Rymbekovich	Member of the Board of Directors Term of office: With 13.03.2014-04.05.2016	0/3 (0%)
ZHAKENOV Serikzhan Amirzhanovich	Member of the Board of Directors, Independent director With 04.05.201	6/7 (86%)
IDRISOV Erlan Sapargalievich	Member of the Board of Directors with 03.04.2015 Chairman of the company board	9/10 (90%)
ISENZHULOV Erlan Bakhytovich	Member of the Board of Directors, Independent director With 18.09.2015	10/10 (100%)
LARIONOV Dmitrii Vladimirovich	Member of the Board of Directors, Independent director With 18.09.2015	8/10 (80%)
MASELOV Meder Khamidullaevich	Member of the Board of Directors With 04.05.2016	3/7 (43%)
RAY Alberto Pavlovich	Member of the Board of Directors Term of office: With 10.06.2010-04.05.2016	0/3 (0%)
SALIMGEREV Malik Zhanabayevich	Member of the Board of Directors Term of office: With 2012-16.03.2016	2/2 (100%)
TUTKUSHEV Erzhan Beksultanovich	Member of the Board of Directors with 04.05.2016	6/7 (86%)

## The following changes were made to the board of Directors of the company during 2016:

By order of the Minister of Defence of the Republic of Kazakhstan of 29 January 2016 (Protocol No. 50), the powers of the Aubakirova of the year (since 22 October 2015) were terminated and the board of Directors was elected Raimbekov of the year before the expiration of the term of the board of Directors of the company as a whole.

From January to May 2016, the board of directors included Sauranbayev N.E., Raimbekov of the year, Rau A.P., Bayseitov B.R., Larionov D., Isenzhulov B., Idrisov E.S., with a term of office of 3 (three) years.

By order of the Minister of Defence of the Republic of Kazakhstan of 4 May 2016 No. 216, the Board of Directors of the company was formed in the new composition: Raimbekov of the year, Tutkushev B., Oils H., Larionov D., Isenzhulov B., Zhakenov S.A., Idrisov E.S., with a term of office of 3 (three) years.

# Composition of the Board of Directors of the company

As of 31.12.2016 year

The Board of Directors of the company consists of 7 (seven) members, 3 (three) of whom are independent directors.

The Independent director is a member of the board of Directors who:

- Is not a affiliated face of the company and has not been a person for three years prior to being elected to the Board of Directors (except in the case of an independent director of the company);
- Is not a affiliated face in relation to affiliated persons in the company;
- The is not subordinate to the officials of the company's affiliates or affiliated companies and has not been subordinated to these persons for the three years preceding his election to the board of Directors;
- Is not a public servant;
- Is not a shareholder at meetings of the company's organs and has not been so in the three years preceding his election to the board of Directors;
- Does not participate in auditing the company as an auditor in the auditing organization and has not participated in the audit for the three years preceding his or her election to the board of directors.

In 2016, there was no evaluation of the board of Directors. However, in accordance with the Corporate Governance improvement plan and the implementation of the new corporate governance code for 2016-2017 years approved by the company's board of directors of 1 April 2016 (Protocol No. 3), an evaluation of the Board of Directors is scheduled to take place in 2017.



### **RAIMBEKOV** Sailaukhan Gazizovich

**Date of birth:** 01.01.1951 y.  
**Nationality:** Republic of Kazakhstan  
**Status:** Chairman of the Board of Directors 04.05.2016  
Member of the board of Directors with 29.01.2016  
**Shareholding:** does not own company or affiliate organization shares  
**Education:**  
2006 year Moscow State University, Economics and administration  
1992 year Kazakhstan Institute of Management, Economics and forecasting, professor of social and political Studies in higher education  
1977 year The Semipalatinsk Pedagogical Institute of the I.K. Major, a teacher of Russian language and high school literature  
**Place of work and positions held in the organizations over the past five years:**  
02.2012 - 01.2016 yy. Deputy head of the office of the Prime Minister of the Republic of Kazakhstan-representative of the Government in the Parliament of the Republic of Kazakhstan  
01.2009 –02.2012 yy. Head of the Division for organizational work and territorial development of the Office of the Prime Minister of the Republic of Kazakhstan



### **TUTKUSHEV** Erzhan Beksultanovich

**Date of birth:** 11.12.1981y.  
**Nationality:** Republic of Kazakhstan  
**Status:** Member of the Board of Directors  
**Shareholding:** does not own company or affiliate organization shares  
**Education:**  
2007 y. University of Illinois at Urbana-Champaign Master of Finance  
2004 y. Saint Petersburg State University of Economics and Finance  
Speciality: Financial Analysis and accounting  
**Place of work and positions held in the organizations over the past five years:**  
08. 2014 y. To present time Deputy chief executive officer for the development of business, with the managing director for the development of new industries, Samruk-Kazyna  
11.2012 – 08.2014 yy. Evaluation manager and business modeling PricewaterhouseCoopers tax and advisory 04.2011 – 07.2012 yy. Samruk-Kazyna Invest, JSC Samruk-Kazyna Director of investment projects Department





### **MASELOV** **Meder Khamidullaevich**

**Date of birth:** 07.06.1980 y.

**Nationality:** Republic of Kazakhstan

**Status:** Member of Board of Directors,  
independent director

**Shareholding:** does not own company  
or affiliate organization shares

**Education:** 2002 year University  
of World Literature and Journalism,  
journalist's specialty  
2007 year Turan University, specialty -  
economist

**Place of work and positions held in  
the organizations over the past five  
years:**

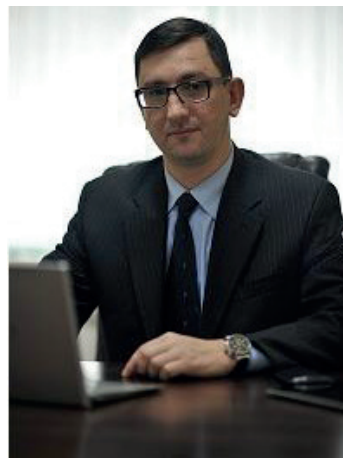
04. 2015 year To present day Chairman  
of the Board of Kaztehnology

02.2015 - 04.2015 yy. Director LLP «Stell  
manufacturing»

04.2013 – 12.2014 yy.

Head of the Gu «Administration of the  
Special Economic Zone» Astana-new  
city

09.2010 – 04.2013 yy. Chief of the  
Department of Administration of the  
special economic area, Astana-New city



### **LARIONOV** **Dmitrii Vladimirovich**

**Date of birth:** 22.11.1973 y.

**Nationality:** Republic of Kazakhstan

**Status:** Member of Board of Directors,  
independent director

**Shareholding:** does not own company  
or affiliate organization shares

**Education:**

2007 year To present time Kazakhstan  
Institute of Management, Economics  
and Forecasting (KIMEP), Ph.D.

1999 year Kazakhstan Institute  
of Management, Economics and  
Forecasting (KIMEP), M.A. in Business  
Administration, accounting and finance.

1995 year Kazakh University of  
International Relations and World  
Languages of Almaty, translator-  
Assistant (English)

**Place of work and positions held in  
the organizations over the past five  
years:**

2015 year World Bank Consultant

2005 – 2015 yy. Partner, LLP «BDO  
Kazahstanaudit»

2005 - 2012 yy. World Bank Consultant



**ISENZHULOV**  
Erzhan Bakhytovich

**Date of birth:** 14.08.1968 y.  
**Nationality:** Republic of Kazakhstan  
**Status:** Member of Board of Directors, independent director  
**Shareholding:** does not own company or affiliate organization shares  
**Education:**  
 1992 year Kazakh State University. Al-Farabi  
**Place of work and positions held in the organizations over the past five years:**  
 2010 year To present time Deputy general manager for commerce too «Munay Ontustyk»



**ZHAKENOV**  
Serikzhan Amirzhanovich

**Date of birth:** 08.10.1949 y.  
**Nationality:** Republic of Kazakhstan  
**Status:** Member of Board of Directors, independent director  
**Shareholding:** does not own company or affiliate organization shares  
**Education:** 11971 year Karaganda Polytechnic Institute, specializing in mechanical engineer  
**Place of work and positions held in the organizations over the past five years:**  
 2009 year To present time Director LLP «Kargormash-M» 2007-2009 yy.



**IDRISOV**  
Erlan Sapargalievich

**Date of birth:** 07.02.1977 y.  
**Nationality:** Republic of Kazakhstan  
**Status:** Member of the Board of Directors  
**Shareholding:** does not own company or affiliate organization shares  
**Education:** 2009 y. Kazakh national Technical University. K.Y. Satpayev, Almaty  
 Speciality-Mechanical Engineering  
 1997 y. Kazakh state Agrarian University, Almaty  
 Specialty-Finance and credit  
**Place of work and positions held in the organizations over the past five years:**  
 02.2015 year To present time Chairman of the Executive Board of the JSC Kazakhstan Engineering 2014-2015 yy. Deputy Chairman of the Board of the JSC «NC» Kazakhstan Engineering 2010-2014 yy. Managing director, JSC Kazakhstan Engineering,

## Strategic issues:

- Approved a plan for the restructuring of the assets of the JSC Kazakhstan Engineering «NC» for 2016;
- Approved a plan of action to implement the expectations of the sole shareholder of the JSC Kazakhstan Engineering, 2016-2020;
- Approved the adjusted development plan of the JSC Kazakhstan engineering for the years 2016-2020;
- Approved the plan of activities to manage the debt portfolio of the JSC «NC» Kazakhstan Engineering;
- Approved a plan of action to realize the expectations of the sole shareholder for the 2017-2021 years;
- Provisionally approved the strategy for the development of the JSC Kazakhstan Engineering «NC» for 2013-2021 years;
- Approved the development Plan (Business Plan) of the JSC Kazakhstan Engineering «NC» for 2017-2021 years.

## Corporate governance issues:

- Approved the rules for payment and compensation of expenses to the independent directors of organizations, whose voting shares are more than 50 per cent owned by the ownership and/or trust management of the JSC «Kazakhstan Engineering»;
- Approved the rules for the identification of suppliers of goods, works and services in the execution of the State defence order of the JSC «Kazakhstan Engineering»;
- Approved the corporate accounting policy of the JSC «NC» Kazakhstan Engineering;
- Approved the dividend policy of the JSC «NC» Kazakhstan Engineering in relation to the subsidiaries.

## Personnel policy issues:

- Decisions have been taken to determine the size, duration and election of the boards of directors of subsidiaries of the JSC «NC» Kazakhstan Engineering;
- Approved the organizational structure of the JSC «NC» Kazakhstan Engineering;
- Decided on the early termination of some members of the board and on the election of new members of the Board;
- Has decided to approve the quantity, term of office, terms of payment and awards of the internal Audit service to the JSC «Kazakhstan Engineering»;
- A change has been made in the rules for the remuneration and award of executives, the corporate secretary and Internal audit employees of the JSC «NC» Kazakhstan engineering.

In order to elaborate on the issues assigned to the Board of directors or examined by the Board of Directors to monitor the Executive body of the company and to develop the necessary recommendations to the company's board of directors, the following have been established:

## Deal with transactions:

- Decided to approve the conclusion of a major transaction (a combination of interrelated transactions) in the execution of the State defence order for 2016-2018 years, not exceeding 61 853 637 300 (sixty-one billion eight hundred fifty-three million six hundred thirty-seven thousand and 300) tenge, at the time and under conditions established by the Goz order;
- Decided to engage a loan of up to 6 000 000 000 (6 billion) tenge;
- Decided to conclude a major transaction by opening a credit line in the JSC «People's Bank of Kazakhstan», amounting to 21 600 000 000 (twenty-one billion six hundred million) tenge.

**Audit Committee**  
**The Appointment and Compensation Committee**  
**Committee on Strategy and investment**

The committees are composed of three members of the board of directors, one of whom shall be the Chairman of the Committee. In addition, the committees of the Board of Directors consisted of external experts with the necessary professional knowledge. The terms of office of the members of the Committee shall coincide with the terms of office of the Board of Directors.

The Board of Directors Audit Committee assists the Board of Directors of the company by recommending the establishment of an effective system of control over the company's financial and economic activities; Monitoring the reliability and effectiveness of internal control and risk management systems and the implementation of corporate governance instruments; Monitoring the independence of external and internal audit, as well as the process of ensuring compliance with the legislation of the Republic of Kazakhstan and others.

The audit committee was formed by a decision of the board of Directors of the company of 4 July 2012, No. 86.

In 2016, the audit committee of the company's board of directors held 9 face-to-face meetings, which dealt with 37 issues.

Members of the Committee Audit	Period	Attendance at meetings	%
D.B. Larionov	01 - 12.2016	9/9	100%
E.B. Isenzhulov	01 - 12.2016	7/9	78%
S.A. Zhakenov	05 - 12.2016	5/5	100%

The Appointments and rewards Committee of the company's board of directors makes recommendations on the appointment, remuneration of independent directors, board members, internal Audit services and the Office of the Corporate Secretary; and provides advice on other matters within its competence, as mandated by the Board of Directors and/or the internal documents of the company, etc.

The Appointment and compensation committee was formed by a decision of the board of Directors of the company of 4 July 2012, No. 86.

In 2016, 7 face-to-face meetings were held by the Appointment and compensation Committee of the company's board of directors, which addressed 21 issues:

Members of the Committee By Appointment and emoluments	Period	Attendance at meetings	%
E.B. Isenzhulov	01 - 12.2016	7/7	100%
D.B. Larionov	01 - 12.2016	6/7	85%
S.A. Zhakenov	05 - 12.2016	4/4	100%
B.R. Baiseitov	01 - 05.2016	0/3	0%

The Strategy and Investment Committee of the Board of Directors provides advice on development strategy, company development plans, investment project implementation, asset management, etc.

The Strategy and Investment Committee was formed by a decision of the board of Directors of the company of 31 May 2013, No. 5.

In 2016, the strategy and Investment Committee of the company's board of directors held 7 face-to-face meetings to address 26 issues.

Members/ Committee on Strategy and investment	Period	Attendance at meetings	%
S.A. Zhakenov	05 - 12.2016	4/4	71%
E.B. Isenzhulov	01 - 12.2016	5/7	71%
D.B. Larionov	01 - 12.2016	5/7	100%
B.R. Baiseitov	01 - 05.2016	1/3	33%

## REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In accordance with the Law of the Republic of Kazakhstan «On joint stock companies», the decisions of the sole shareholder of the company, the decision of the trustee of the sole shareholder, the independent directors of the board of Directors of the company are remunerated and the costs of the performance of their functions are compensated. The amount of such awards and compensation shall be determined by a decision of the trustee of the company.

In accordance with the order established in the company, only the independent directors members of the board of Directors are remunerated for the performance of the duties of a member of the Board of Directors and shall contain only:

- Fixed annual remuneration;
- Additional annual remuneration for participating in face-to-face meetings of the Board of Directors of the company.

It should be noted, however, that remuneration is payable on the basis of attendance at meetings of the Board of Directors (full-time/in absentia), except for absences from meetings because of illness, no fixed annual remuneration is paid.

The total awards to the independent directors for the year ended 31 December 2016 are shown in the following table.

Independent director	Period	Remuneration (Tenge)
D.B.Larionov	01 - 12.2016	7 150 000
E.B.Isenzhulov	01 - 12.2016	7 150 000
S.A.Zhakenov	05 - 12.2016	4 454 167

Members of the Board of Directors do not receive any other benefits and rewards.

## INTERNAL AUDIT SERVICE

The company's internal audit service was established by a board of directors decision in 2007.

The company's internal audit staff is made up of 4 people.

The main objective of the internal Audit service is to provide the board of Directors with independent and objective information designed to ensure the efficient management of the company by introducing a systematic approach to improving risk management, internal controls and corporate governance.

The activities of the internal Audit service are management by the company's internal audit service, internal audit policy and other internal regulatory documents.

The annual audit plan of the internal Audit service for 2016, approved by a decision of the board of Directors of the company of 01 April 2016 (Protocol No. 3). In accordance with the annual audit plan for 2016, in 2016, audit assignments were performed on the company's investment audits, Personnel Management (HR), operational audits of company subsidiaries, etc.

## CORPORATE SECRETARY

The corporate Secretary is entrusted with ensuring the effective organization of the Board of directors and the interaction of the Board of Directors, the Executive Body with the sole shareholder. The corporate Secretary ensures that the bodies and officials of the company comply with the procedures aimed at securing the rights and interests of the sole shareholder, as well as the company's adherence to corporate governance regulations and rules, the Charter and other internal corporate governance documents.

As part of its activities, the Corporate Secretary supervises the preparation and conduct of meetings of the Board of Directors, provides input on agenda items to the board of directors, and controls access to them.

The corporate Secretary ensures that the board members receive accurate and clear information in a timely manner.

The company's corporate secretary was Ahizhanov Yerzhan Maratovich in 2016.



## The members of the company's board

in 2016 were:

IDRISOV Erlan Sapargalievich	Chairman of the Board From 25.02.2015 years
SULTANBEKOV Kanat Tanatarovich	Vice-President of the Board, member of the board since 25.02.2015
MYNSHARIPOVA Saya Naimanbaikyzy	Vice-President of the Board, member of the board since 29.01.2015
BINZHANOV Dimash Nurakhmetovich	Vice-President of the Board, Member of the board from 29.01.2015 year to 05
SATZHANOV Kenzhebai Satzhanovich	Vice-President of the Board, member of the board since 05
PIGOREV Anatolii Yr'evich	Vice-President of the Board, member of the Board from 05 year to 14.06.2016
BERGENEV Adylgazy Sadvokasovich	The head of the apparatus, Member of the board since 10.10.2015

The overall direction of the company is exercised by the Board of directors, except in the case of the exclusive responsibility of the sole shareholder.

The Board of Directors exercises its powers under the laws of the Republic of Kazakhstan «On joint stock companies», «On the National Welfare Fund», «On state property», on the statute and on the company's internal documents.

The activities of the Board of directors are based on the principles of reasonableness, efficiency, activity, integrity, honesty, responsibility, accuracy, professionalism, objectivity and regularity.

# COMPOSITION OF THE BOARD

As of 31.12.2016 year





**IDRISOV**  
Erlan Sapargalievich

**Date of birth:** 07.02.1977 y.

**Date of birth:** Republic of Kazakhstan

**Education:**

2009 y. Kazakh national Technical University. K.Y. Satpayev, Almaty  
Speciality-Mechanical Engineering  
1997 y. Kazakh state Agrarian University, Almaty  
Specialty-Finance and credit

**Place of work and positions held in the organizations over the past five years:**

02. 2015 year - To present time  
Chairman of the Executive Board of the JSC Kazakhstan Engineering  
2014-2015 yy. Deputy Chairman of the Board of the JSC «NC» Kazakhstan Engineering  
2010-2014 yy. Managing director, JSC Kazakhstan Engineering,  
Ownership of company shares, shares of suppliers and competitors: no



**SULTANBEKOV**  
Kanat Tanatarov

**Date of birth:** 01.09.1976 y.

**Nationality:** Republic of Kazakhstan

**Education:**

2000 year University of Farley Dickenson  
1999 year Stevenson Institute of Technology  
1998 year Kazakh state architectural and Engineering Academy  
Specialty-Engineer

**Place of work and positions held in the organizations over the past five years:**

02.2015 – 02.2017 yy.  
Deputy Chairman of the Board of the JSC «NC» Kazakhstan Engineering  
2009-2014 yy.  
Deputy Akim of the city of Astana  
Ownership of company shares, shares of suppliers and competitors: no



**MYNSHARIPOVA**  
Saya Naimanbaikyzy

**Date of birth:** 19.10.1970 y.

**Nationality:** Republic of Kazakhstan

**Education:**

2010 y. Graduate School of Business of Moscow State University. M. Lomonosov,  
Moscow Executive MBA degree  
1992 y. Kazakh state Economic University, Almaty  
Specialty, skills-accounting and analysis of economic activities.

**Place of work and positions held in the organizations over the past five years:**

02.2015 year - To present time Deputy Chairman of the Board of the JSC «NC» Kazakhstan Engineering  
2008-2015 yy. Director of audit and control of the Samruk-Kazyna National Welfare Fund.  
Ownership of company shares, shares of suppliers and competitors: no



**SATZHANOV**  
Kenzhebai Satzhanovich

**Date of birth:** 19.08.1955 y.

**Nationality:** Republic of Kazakhstan

**Education:**

2005 y. Almaty State University. Antique, G. Almaty Speciality-Jurisprudence

2005 y. The Diplomatic Academy of the Eurasian National University. L. Gumilev, G. Astana. Speciality-International relations

1977 y. Karaganda of the Order of the Red Banner of Labour, Polytechnic Institute, G. Karaganda

Speciality-Economics and industrial organization

Speciality-Economics and industrial organization

**Place of work and positions held in the organizations over the past five years:**

02.2017 year – To present time Managing director, JSC Kazakhstan Engineering,

06.2016 -02.2017 yy. Deputy Chairman of the Board of the JSC «NC» Kazakhstan Engineering

03.2015-06.2016 yy. Adviser to the Chairman of the Board of the JSC «Kazakhstan Engineering», director of the Corporate Development department

08.2010-03.2015 yy. Managing director, JSC Kazakhstan Engineering, Ownership of company shares, shares of suppliers and competitors: no

08.2010-03.2015 yy. Managing director, JSC Kazakhstan Engineering, Ownership of company shares, shares of suppliers and competitors: no

08.2010-03.2015 yy. Managing director, JSC Kazakhstan Engineering, Ownership of company shares, shares of suppliers and competitors: no

08.2010-03.2015 yy. Managing director, JSC Kazakhstan Engineering, Ownership of company shares, shares of suppliers and competitors: no



**BERGENEV**  
Adylgazy Sadvokasovich

**Date of birth:** 15.05.1958 y.

**Nationality:** Republic of Kazakhstan

**Education:**

1987 y. Semipalatinsk zootechnical-Veterinary Institute

Speciality-Zoo Technician

1976 y. Semipalatinsk Financial and Economic college

Specialty-Financier

**Place of work and positions held in the organizations over the past five years:**

04.2015 yy. To present time Head of the apparatus of the JSC Kazakhstan Engineering

03.2014 - 04.2015 yy. Managing director, JSC Kazakhstan Engineering,

10.2010 - 03.2014 yy. Head of the apparatus of the JSC Kazakhstan Engineering

Ownership of company shares, shares of suppliers and competitors: no

Ownership of company shares, shares of suppliers and competitors: no

Ownership of company shares, shares of suppliers and competitors: no

Ownership of company shares, shares of suppliers and competitors: no

Ownership of company shares, shares of suppliers and competitors: no

Ownership of company shares, shares of suppliers and competitors: no

## ACTIVITIES OF THE BOARD

In 2016, within the scope of its competence, the company board considered 205 issues in the course of the 45 meetings held.

In particular, decisions were taken by the company's board during the year 2016:

- On matters falling within the purview of the general Meeting of shareholders/members of subsidiary and dependent organizations of the company;
- For approval of documents adopted for the organization of the Company's activities;
- On the preliminary review and approval of submissions on matters brought before the Board of directors and the sole shareholder of the company;

In general, in order to effectively address the company's challenges during the reporting period, the company board worked with the sole shareholder, trustee, board of Directors and other interested parties in corporate relations.

## REMUNERATION OF THE BOARD

The conditions, procedures for evaluating the performance and remuneration of senior officials, the head and employees of the internal audit service, the corporate Secretary and his staff, and the remuneration of the company's managers are managed by the rules governing the evaluation of these employees approved by the Board of Directors of the company of 19 November 2014.

Performance awards (short-term and long-term remuneration) are paid depending on the results of the work in order to reward progress and efficiency gains and are not of a continuing nature.

The procedure for evaluating the performance of managers consists of the following steps:

- Selection of Motivational key performance indicators (CPA), setting of target values;
- Approval of motivational efficiency;
- Performance monitoring;
- Calculation and approval of actual performance.

The main condition for the payment of the yearly remuneration is the consolidated total profit for the reporting year, calculated on the basis of the planned amount to be paid.

A decision of the board of Directors of the company of 14 July 2016 (Protocol No. 7) approved maps of short-term key performance indicators for the president and board members with target values for 2016.

## EXECUTIVE BOARD SECRETARY

The Secretary of the Board is an employee of the company and operates under the Statute of the Company and the regulation of the Board approved by a decision of the board of Directors of 23 November 2012 (Protocol No. 94).

The functions of the Secretary of the Board are: Development, approval and monitoring of the Board's work plan, preparation of a progress report on the implementation of the Board's work plan;

- (1) Establishment of the agenda of the Board and materials in accordance with the agenda of the Board;
- (2) The administration of the company's decisions;
- (3) To monitor the timely submission of materials and their completeness to the board meeting;
- (4) Monitoring and control of the implementation of the Board's decisions.

From 18 January to 31 December 2016, the secretary of the company's board was Kusainova Armangul Kairbekovna.

## INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

### Internal control system

The company's internal control system is an integral part of corporate governance and covers all levels of management.

The company's internal control activities are carried out in accordance with the company's internal control system, approved by a decision of the board of Directors of 27 June 2014 (Protocol No. 7).

The regulation on the internal control system establishes the responsibility of the Board of Directors to organize, monitor and evaluate the effectiveness of the company's internal control system, using a risk-oriented approach. The company's executive Board is responsible for the effective functioning of the internal control system.

In doing so, the company's internal Audit Service acts as part of a continuous monitoring of the company's internal control system and directly evaluates the internal control system to ensure that it meets the objectives, objectives and criteria set and provides recommendations for improving the internal control system.

### Risk Management

The company successfully operates a risk management system designed to ensure continuity and stability by limiting the impact of internal and external negative factors on the company.

Risk-management of the company is carried out with the participation of the Board of Directors, the Internal Audit service, the board, the structural units that are the owners of the risks, as well as the risk Managers Branch of the organization responsible for managing the risk management



process.

The company operates in a broad range of risks, which are divided into four categories: strategic, financial, legal and operational risks.

The company's risk management process is management by risk management, identification and risk assessment policies, rules for the management of certain types of financial risk (monetary, credit, interest and country risks) approved by the company's board of directors, the Samruk-Kazyna rules on hedging risks, the risk assessment rules for investment projects and the methodology for accounting of implemented risks approved by the company's board.

The company conducts risk identification, evaluation and risk management activities each year.

Risks are monitored on a quarterly basis with the participation of risk owners, risk management activities are monitored, and the risk base implemented. When external and/or internal risks change, risk re-evaluation, review of risk management activities

In the course of 2016, the risk management Committee was active in its work, with the task of preparing recommendations to the Board of the company for managing risk. In 2016, 11 meetings were held, addressing 24 issues. The results of its activities are reported to the Board on a quarterly basis by the risk committee.

Each organizational unit of the company identifies a risk management officer and assists in identifying and assessing the risks inherent in a structural kuriruemomuing direction, preparing risk reporting, interacting with the risk Management branch. There are regular training activities for the employees of the company. In particular, an introductory seminar on the risk management system was held in 2016 for newly admitted employees of the company.

***Management of the risks of service and repayment of loans and bonds, financial volatility, liquidity losses and the risk of non-return by subsidiary organizations of borrowings issued by the company***

In order to avoid the insufficiency of funds for the servicing and repayment of loans and bonds, inefficient cash flow management and the return of loan funds by subsidiaries to the company are monitored on a regular basis by the revenue part, monitoring results were reviewed quarterly on board, board of Directors in the risk report.

An action plan for managing the company's debt portfolio has been approved. On issued bonds, the company in 2016 regularly posted information on corporate and other key events on Kase. The company's operating revenues allowed for the maintenance of the costs of coupons for the company's issued bonds. In December 2016, the company liquidated its evroobligaci obligations in the amount of 200 000 thousand. \$. United States of America, attracted in 2013, and paid a planned fee of 4 500 thousand. \$. United States.

***Currency risk Management***

Currency risk is a financial risk and is caused by volatility, which may result in losses in the company's unfavourable exchange rate changes during the period in which the company has an

open currency position (balance or off-balance sheet) in foreign currency. The foreign exchange risk is linked to credit, interest risk, liquidity risk, and country risk.

The company, in attracting Euroobligaci in 2013 to mitigate currency risks, carried out a natural hedge-structural balancing of assets and liabilities to cover up the loss of exchange rate gains from the same change from other balance items.

In addition, as a result of negotiations with major customers (ABKazMunayGas), the JSC «Kazakhstan Temir Soft», JSC «Samruk Electricity», and the power agencies of the Republic of Kazakhstan have reached agreements to increase the volume of orders and the price of implementation in 2016 in connection with the introduction of a floating rate of the national currency.

The pricing of sales agreements has been revised to take into account the adjustment of the exchange rate; Treasury Operations (conversion operations and corporate dealing) have been introduced, allowing conversion at a market price. The currency position is monitored on a continuous basis and is reflected in the company's risk report.

### ***Credit Risk Management***

The credit risk is a financial risk-linked to liabilities (active and passive balances) with the contracting banks or third parties outside the company group. The realization of the credit risk is due to factors such as failure to comply with the allocation limits of second-level banks, low deposit quality, etc. In order to manage credit risk and ensure financial sustainability by risk owners, action was taken in 2016:

- The company's operating revenues allowed for the maintenance of the costs of coupon payments issued by the company;
- Work has been done with rating agencies to confirm company ratings;
- The limits on transactions with the company's contracting banks have been developed and agreed with the JSC Samruk-Kazyna;
- Monitoring of the temporary free money (monthly Samruk-Kazyna) and monitoring of transactions with the banking entities.

The company established a credit committee, which held 12 meetings in 2016, on 24 issues. The Credit Committee operates in accordance with the domestic credit policy of the JSC Samruk-Kazyna, the regulations on the issuance and monitoring of credit, financial assistance and company guarantees, and the regulation on the company's credit committee.

### ***Management of the risk of non-compliance with established working conditions***

This risk is an operational risk and is characterized by occupational accidents, occupational safety and health, as well as a violation of labour laws by the employer. This risk arises from the failure of staff to meet safety requirements, the lack of mechanisms to update workers' knowledge of the applicable law on a permanent basis, and the failure to comply with Kazakh legislation in the implementation process.



In order to prevent accidents at work, the occupational Safety and health units in the organizations of the company group are functioning, and training schedules and staff briefings have been approved.

The company has approved a provision for the training, instruction and inspection of occupational safety and Health and the establishment of an examination commission. The company's employees are equipped with individual protection against haze. Training is provided on a continuous basis to employees of the company and subsidiaries of the company group. Safety briefings are conducted in the workplace.

***Risk management of investment projects (loss of funds invested in investment projects, cost of the project and late entry into service, technological backwardness and low competitiveness of products produced)***

These risks are operational risks. These arise from the unjustified identification of priorities of the economic and market strategy, as well as from the corresponding priorities of various types of innovation capable of contributing to the achievement of the company's objectives, poor and untimely preparation of the project's financial, economic and feasibility study.

In order to mitigate the risks of investment projects in the company, the following work was carried out in 2016:

- the Board of Directors of the company has decided that the company's investment projects should be implemented and financed after their approval by the Board of Directors of the company;
- the company's board of Directors reviewed the company's investment project Monitoring report for the second half of 2015 (protocol of 14 July 2016, No. 7); the Board of Directors of the company reviewed the investment project monitoring reports for the 1st half of 2016 (protocol of 16 September 2016 No. 8) and 2 half-year 2016 (protocol of 30 March 2017, No. 2);
- The Board of Directors of the company has taken note of the information on the investment project «Production of printed cards 5 of the accuracy class with the sewage treatment system and the mechanical control equipment from its own resources», M. Kirov (Protocol of 14 December 2016, No. 10);
- A positive decision was received from the Republican Budget Commission (RBC) to amend the Faeo project «Establishment of a Centre for Engineering and Technical services for the repair and upgrading of heavy military and civilian equipment on the basis of the JSC Families Engineering» (decision RBC No. 23 of 08 October 2016);
- A positive decision was received by the RBC to amend the Faeo project «establishment of an electronics and optical production Centre in the territory of the RK» (decision RBC No. 23 of 08 October 2016), and an order was signed by the Minister of Defence of the Republic of Kazakhstan approving the correction of Faeo (order of 27 October 2016 No. 500);
- The company has established an Investment and Innovation Committee (hereinafter-EEK), approved the review rules, agreed on investment projects in the company;

-Between January and December 2016, 10 meetings of EEK were held, at which 13 issues were considered.

## QUALITY MANAGEMENT SYSTEM

The company's strategic objectives in the area of quality are aimed at achieving efficiency and effectiveness of management through a systemic approach to managing quality based on the international standard ISO 9001:2008. A system approach allows for the development of successful business processes with a stable high quality and ensures that all factors affecting quality are qualified and well managed.

The company's quality management system has been implemented since 2006 and is maintained in line with the requirements of ISO 9001:2008.

The certificate was issued by one of the leading certification authorities TUV Sud Management Service GmbH, accredited to the right to conduct certification work for compliance with international standards.

Due to the release of the new version of standard 9001:2015, a number of activities are planned in 2017-2018 years to move the company to a new standard.



# SUSTAINABLE DEVELOPMENT

Engagement with stakeholders  
Personnel policy  
Staff Development and training  
Social stability  
Sponsorship and Charity  
Workplace Health and safety  
Environmental protection  
Local content in procurement



## Engagement with stakeholders

Stakeholder engagement The company considers that the necessary conditions are in order to create a long-term value, to achieve strategic objectives and to build a positive reputation for the company.

The system of interaction with the company stakeholders aims at harmonizing the interests of all interested parties. Interaction with stakeholders is based on the principles of respect for interest and cooperation, information transparency of the company, regular interaction, and compliance.

Key stakeholder groups:

- The sole shareholder and trustee;
- State bodies;
- Child and dependent organizations;
- Vendors, contractors, customers;
- Staff of the company.

### **Interaction with sole shareholder and trust manager**

The sole shareholder owns 100% of the company's shares. The company's board of Directors understands the importance of constant and effective interaction with the sole shareholder and the trustee. The Company shall inform the sole shareholder and the trustee of its activities in full and on time and in the manner provided for in the Company's statute and internal documents. Interaction with government bodies.

### **Interaction with state bodies**

The company is building a relationship with the public authorities on the principles of partnership and respect, realizing that all initiatives of State bodies and companies should be directed towards the development of the economy. The company and its subsidiaries and dependents are responsible and bona fide taxpayers.



### **Interaction with child and dependent organizations**

Interaction with subsidiaries and dependent organizations is carried out through established corporate procedures through the appropriate bodies of such organizations. Subsidiaries and dependents are the organizations in which the company owns, directly or indirectly, shares (participation rates). The main objectives of the company's interaction with its subsidiaries and dependent organizations are to ensure stable financial development, profitability, increase the investment attractiveness of the company and subsidiaries and dependent organizations, and to develop and implement a coordinated and effective company development strategy. Communicate with vendors, contractors, and customers.

### **By building relationships with suppliers, contractors, and customers**

The company is guided by the principles of openness, honesty, respect for mutual benefit, understanding of full responsibility for the obligations undertaken, respecting all the terms of the contractual relationship, showing respect and good faith in the relationship, holding working meetings with the clients in the performance of the treaty obligations.

#### **Staff**

The interaction of the company and the staff is aimed at building cooperative relationships.

The company values the contribution of each employee and builds a relationship with the staff based on respect and cooperation, encouraging initiative, responsibility and achievement of ambitious goals.

The employer's interaction with the employees is consistent with the laws of the Republic of Kazakhstan, regulated by collective agreement, labour contracts, code of business ethics and personnel policy.

## Personnel policy

The staffing capacity of the company is a critical strategic determinant of its success. The company has a human resources policy, the main purpose of which is to improve staff management through the implementation of HR management and the establishment of a company's human resources management system, aimed at maximizing profits and providing leadership in a competitive environment based on economic incentives and social guarantees, and contributing to a harmonious combination of the interests of both the employer and the employee and the development of their relationship for the benefit of the company and its subsidiaries and dependent organizations.

The key priorities of the personnel policy are:

- Attracting, developing and retaining highly professional workers;
- The introduction of best practices in human resources management;
- Management of the staffing reserve through a judicious combination of the internal staffing reserve and external resources;

The establishment of a cadre of managers;

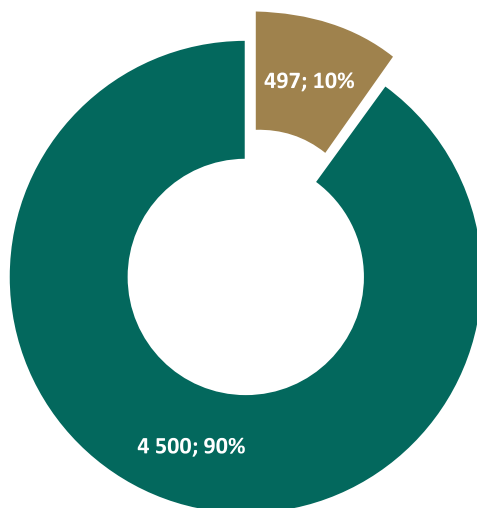
- in the establishment of a cadre of managers;
- The creation and development of shared values, social norms and norms governing the behaviour of the worker;
- The regulation of social and labour relations and the prevention and avoidance of labour disputes.

### **Structure of the company's personnel.**

The average number of employees of the company's group for 2016 was 4 997 persons (497 (10%) administrative staff and 4 500 (90%)-production staff).



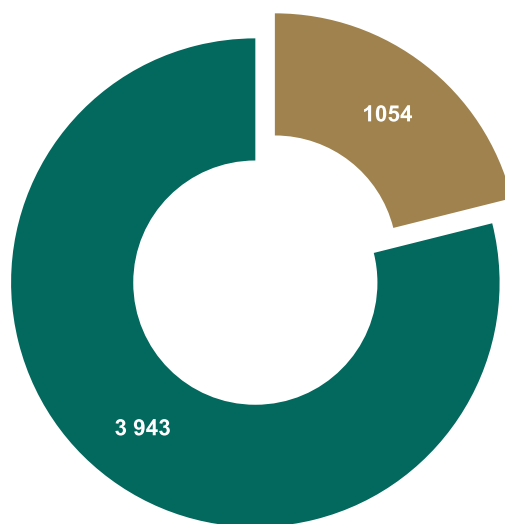
### Average number of employees in the company group (human)



■ Administrative and managerial staff      ■ Production personnel

**Of the 4 997 persons, women in the company group, 1 054 persons or 21 per cent.**

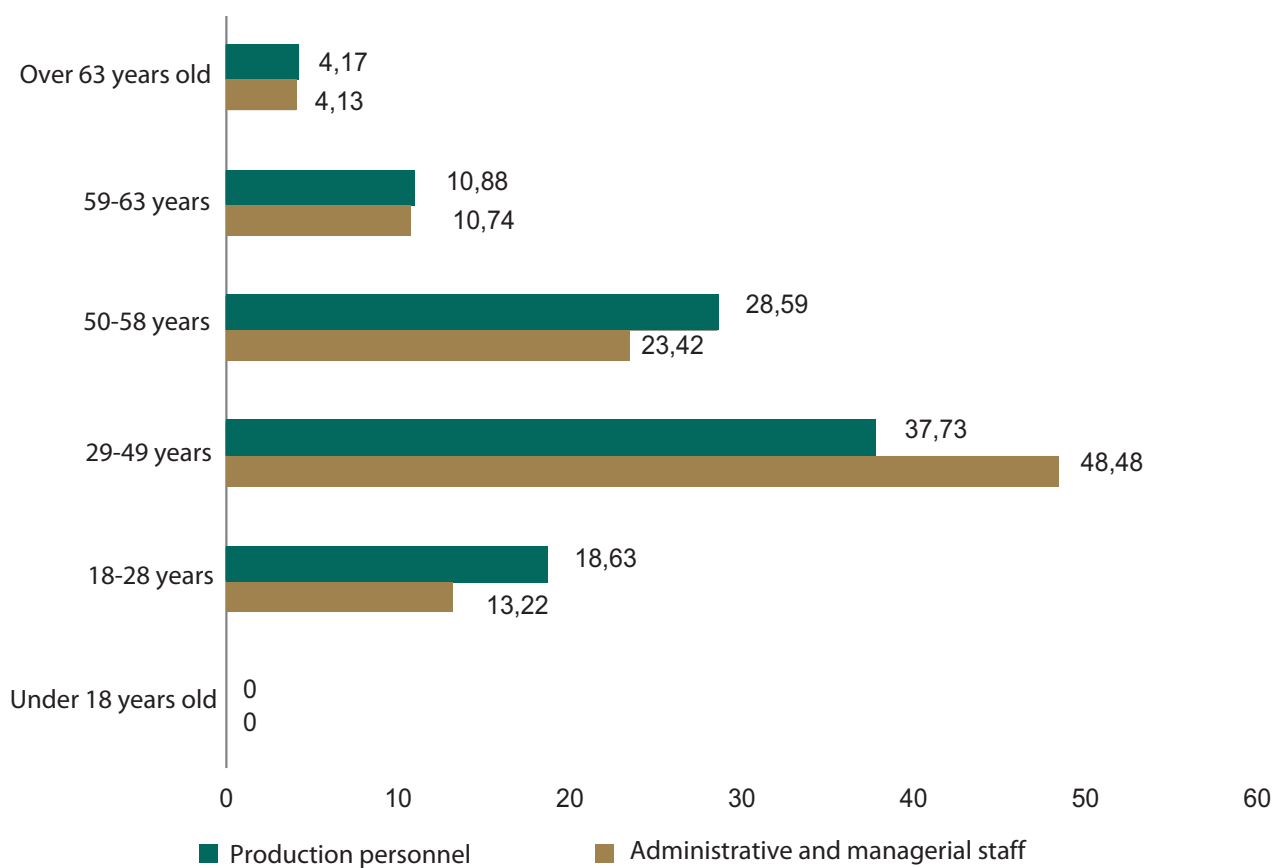
### Average number of employees Company group, by gender, person



■ Women      ■ Men

Number of employees by age: The group is 29-49 years of age: 48.48 per cent of the administrative and managerial staff in this group, and 37.73 per cent of the group's production staff.

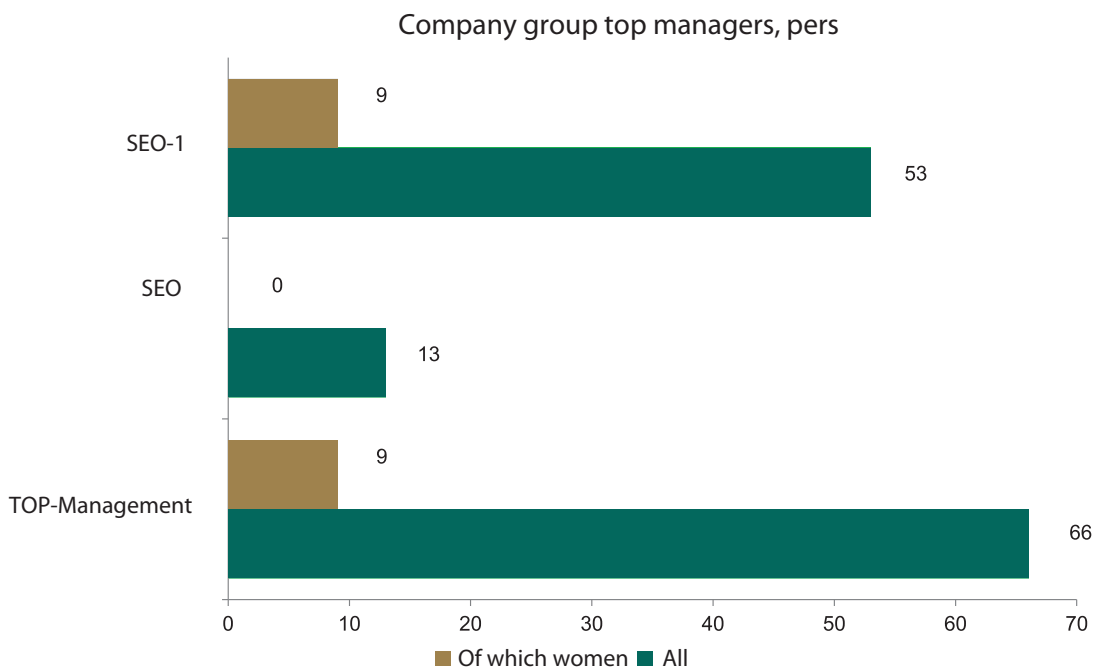
Number of employees by age,%



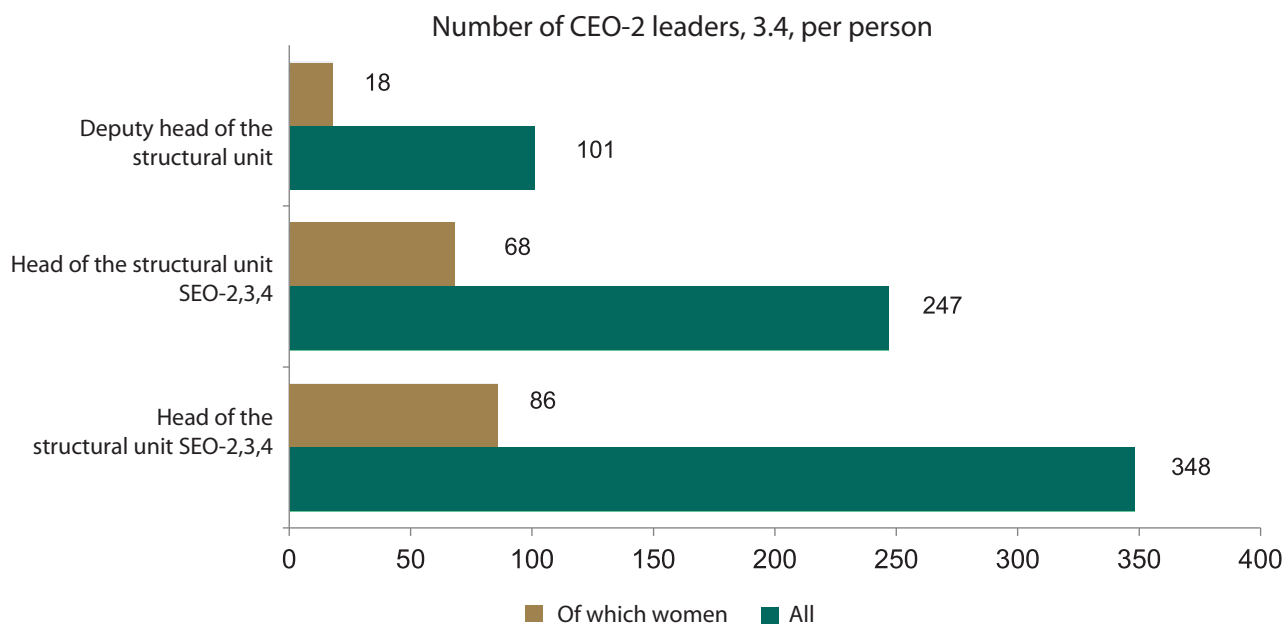




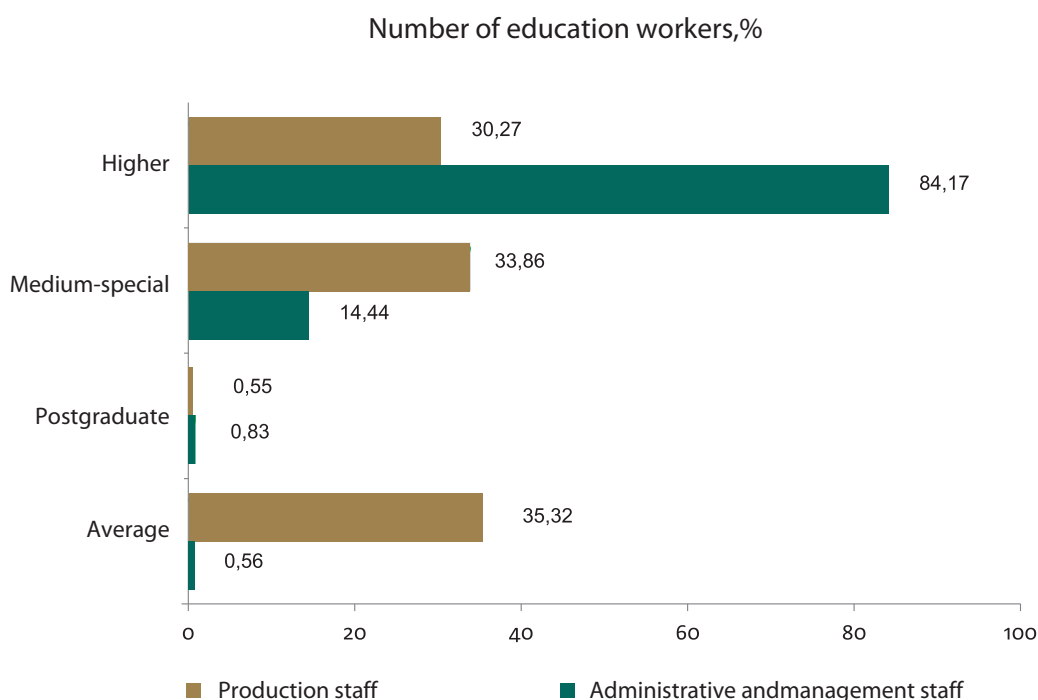
The number of top managers is 66 persons, of which the position of CEO is 13, CEO-1 to 53 pers, of which 9 are women.



The number of CEO-2 leaders, 3.4 is 348 people, of whom there are managers (the director of the Department, the head of the office, the head of the service, the head of the division), 247 persons, of whom 68 are women, and the deputy head is 101 Pers, of whom 18 are women.



The staff of the company is characterized by a high level of education. As of 31 December 2016, 84.17 per cent of APM workers have higher education and 14.44 per cent have a specialized secondary school.



Within the framework of the implementation of the Meritocratic principles and the Transformation Road map (HR-direction) of the company, in accordance with the reference model for human resource management, the work was conducted in four directions and the following tasks were accomplished:

**Introduction of a firm competitive selection process in the recruitment of administrative posts, through the mandatory publication of vacancies on the company website and selection of best candidates.**

The recruitment procedure for the company was conducted in accordance with the rules for the competitive selection of personnel for the company's administrative posts, including the application of the professional and personal-business competency tests at the CHU Samruk-Kazyna Corporate University and the company's top management interview (subject to testing) to verify the level of knowledge of candidates and the meeting of the Competitive Commission.

A total of 219 persons (18 per site) participated in the 12-seat competition in 2016 (76 per cent). Did not meet the qualification requirements. Increased candidates for vacancies of 3.2 times (compared with 2015).

As a result of the personnel audit of the Samruk-Kazyna, the company joined the group of leaders to implement the HR process.

**Introduction of a talent management system, staff development through participation in functional academies.**

In 2015, the top 25 staffing reserve was created.

From the «Top 25» staffing reserve in 2016, the the vice chairs of Pigorev A.Y. and Satzhanov C., director of the Corporate Development Department-Urzhan M.A.

In 2016, a pool of talent was formed that included 91 Employee of the company and subsidiaries. The internal personnel reserve of the children's organizations includes 182 people.

In the HR and it functional academies of the Fund, six employees of the company were trained (4-HR, 2-it).

#### **Implementation of the job classification structure (grading).**

In 2016, training of company employees and subsidiaries by job description Haygroup.

Work has been done on the description and evaluation of 37 posts: Management and Management positions (CEO) (1 unit), CEO-1 (4 units), cross-cutting posts (21 units): Internal Audit services, corporate Secretary, financial and Economic Unit and human resources management, evaluation of 11 administrative posts (CEO-2).

In the second half of 2016, regulations of work and the composition of the assessment committees of the company and subsidiaries were adopted.

In May-June 2016, work was done on the description of 50 administrative posts in the company.

**Implementation of performance evaluation (management and administrative performance appraisal system;) a model of leadership competencies in the recruitment, development, evaluation and promotion of workers; non-material motivation system, integrated assessment (360 degrees) of first managers (CEO), leaders 1, 2 level (CEO-1, CEO-2).**

New rules have been approved for the evaluation of management and administrative employees with a model of leadership competency in the development, evaluation and promotion of workers in the company and subsidiaries (decision of the Board of 31 March 2016, Protocol No. 11/16).

In September 2016, the company's Housing Commission regulation was approved.

In December 2016, a comprehensive evaluation of 360 degrees of managers (CEO-1.2) was carried out, and the results of the evaluation are provided in terms of training and development of the company's employees.

The rules for non-pecuniary stimulation have been approved.

## Staff Development and training

The development and training of staff is a major factor in the company's team. Staff development is understood to mean a combination of activities aimed at upgrading skills and professional growth.

In the year 2016, a total of 1 065 per cent increased their qualifications, which is higher by 5.6% than in 2015 (960 pers.).

Professional development and training the employees of the company group were received at various training centres in the Republic of Kazakhstan as well as in foreign countries.

Representatives of LLP «Kazakhstan Paramount Engineering» were retrained in South Africa, as well as in the joint venture of Kamaz Engineering Company JSC.

Special attention is also paid to the employment of young people at the defence electronics and optical production plant of LLP «Kazakhstan Aselsan Engineering», whose specialists were trained in training centres in Singapore, Holland and Turkey.

All social conditions have been created for workers: two meals, delivery to and from the enterprise, and the organization of language courses. Every year, 10 students, publications 2 and 3, of the University of Nazarbaev, have a production practice in LLP «Kazakhstan Aselsan Engineering».

In 2016, the Air Technical Centre (centre) was inaugurated in Astana. Centre specialists in 2016 received theoretical training on the maintenance of the C-295 aircraft in the Airbus Defence and Space Company in Spanish Seville and the practical training in the military part of 53975 Almaty.

In addition, in order to transfer technology in the field of mechanics, avionics employees of LLP Eurocopter Kazakhstan Engineering were trained at the Airbus Helicopters in Germany and France.

In 2015, a memorandum of cooperation was signed with the leading Polytechnic University country, knrtu them. Satpayev. The company selects the best young professionals to be trained at the university, and will then apply the acquired knowledge to the organizations of the company group. Thus, as part of the implementation of the memoranda, 14 young professionals received State educational grants in the priority specialization of engineering.



## Social stability

The company's social support activities are regulated by the following internal regulations:

- Collective agreement;
- Personnel policy of the company;
- The rules for providing social support to employees.

Within the framework of the industry agreement, the company and all subsidiaries have entered into collective agreements between employees and the employer in the mechanical engineering industries of the Republic of Kazakhstan for 2014-2016.

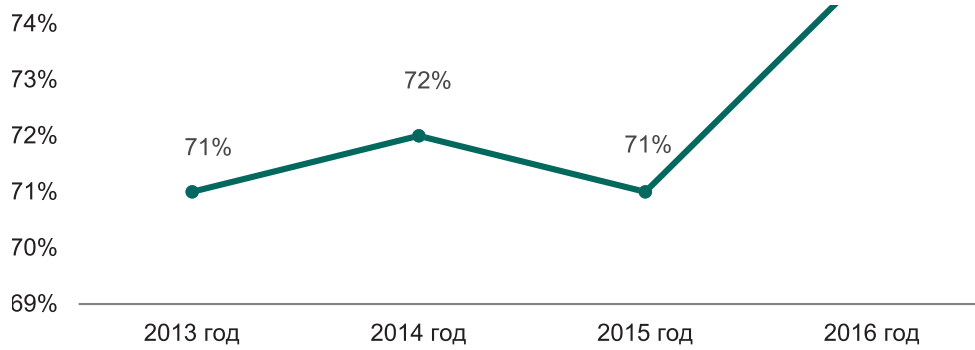
In 2016, the company has a collective agreement concluded between the company and its Labour collective for 2014-2016, in accordance with the requirements of the labour legislation of the Republic of Kazakhstan,

The collective agreement is aimed at improving social and labour relations and protecting the rights and guarantees of employees.

In 2016, a sociological study to identify social stability ratings was carried out in order to assess social well-being and the social welfare of productive personnel by the Corporate Social Partnership Center Foundation.

As a result of the 2016 study, the social stability rating of the company group reached 75%. The study results in a positive development of indicators for all key indicators of social stability, indicating the success of the measures taken and the real improvement in the situation in the company compared to the results of previous years.

### Social stability Rating



### Sponsorship and Charity

As part of this course of action, there are ongoing events in connection with the 9 May, 1 September, 1 October, support to veterans of the Great Patriotic War and persons assimilated to them, retired employees of the company group. A «Road to school» Action is also being carried out, in which large numbers of workers in the company group are provided with material support, food, school clothes and supplies.



## Workplace Health and safety

The company is constantly working to create safe working conditions, reduce injuries, improve workers' working and health conditions, and reduce the impact of harmful and unfavourable factors.

In order to prevent accidents involving the production of work, the company group was provided with induction, planning, extraordinary and unscheduled instruction.

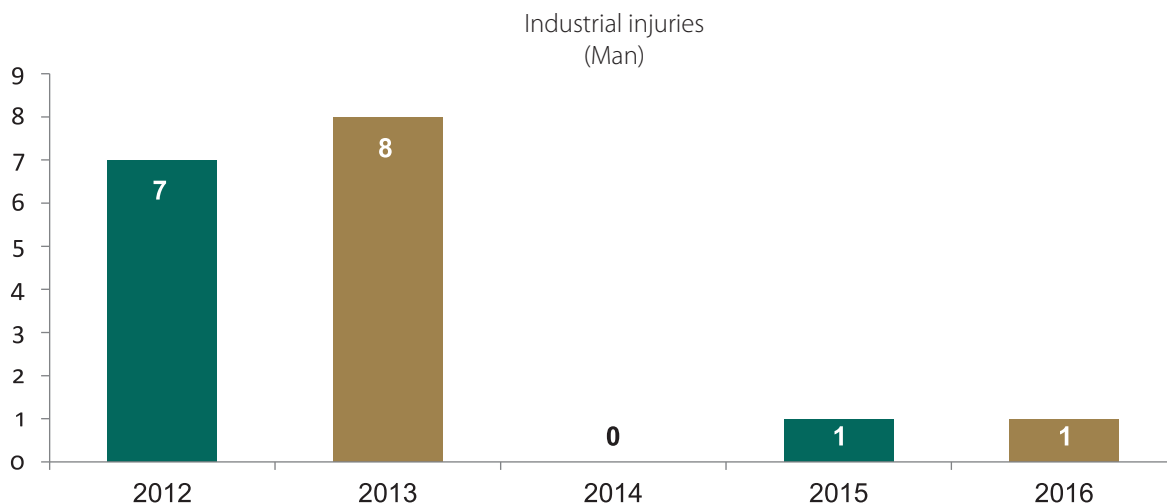
The company carries out systemic measures to improve occupational safety. Subsidiaries of the company fulfil the obligations they have undertaken, including:

- The provision of appropriate temperatures at the workplace in the fall-winter period;
- To provide adequate coverage of jobs;
- Analysis of the causes of industrial injuries and the measures taken to prevent it;
- The conduct of preventive medical examinations;
- The issuance of uniforms, footwear, personal protective equipment;
- Insurance of liability for harm caused to the life and health of employees in the performance of their work;
- Constant monitoring of compliance with labour protection requirements;
- To provide the workshops, the medical clinic with the necessary medication to provide emergency assistance to the factory's employees.

In accordance with the requirements of the Law of the Republic of Kazakhstan «On the compulsory insurance of an employee against accidents in the performance of his work (official duties)», the civil liability of the employer for causing harm to the life and health of the employee in the performance of the work (official duties) shall be insured.

During the reporting period, the company group recorded one industrial accident without a fatal outcome.

A study of the dynamics of industrial injuries in the company group shows that, compared to 2012-2013 years, the rate has been minimized.



## Environmental protection

Enterprise group enterprises are seen as an integral part of their daily work and have given priority to measures to minimize the negative impact of their activities on the environment.

The contribution to the sustainable development of the company's presence in the enterprise group ensures that the requirements of environmental legislation are met.

In accordance with the existing environmental legislation of the Republic of Kazakhstan, companies in the company group have obtained permits to emit into the environment.

The companies of the company group have developed and agreed with the territorial environmental authorities on the maximum permissible emission standards. New standards are being developed at the end of the term.

The company strives to adhere to the principles of maximum respect for the environment and the rational use of natural resources, contribute to the prevention of negative impacts on the environment, take initiatives to promote environmental responsibility, promote the development and diffusion of environmentally sound and energy-efficient technologies, Environmental monitoring and the open provision of environmental information.

The main objectives for ensuring environmental sustainability and security are:

- Respect for the environment;
- Compliance with Labour safety and occupational safety standards and standards;
- Improving energy efficiency;
- Implementation of the reporting system.

The power consumption of a company consists of two components: electric energy and thermal energy for economic needs.

Energy-saving measures have the greatest effect in terms of reducing energy intensity through the use of innovative energy-efficient technologies. Significant reductions in costs can be seen in the significant reduction in thermal power consumption, in the implementation of the enterprise modernization Project, through the use of new materials, the thermalization of facades and the design of windows that reduce the thermal loss of the building.







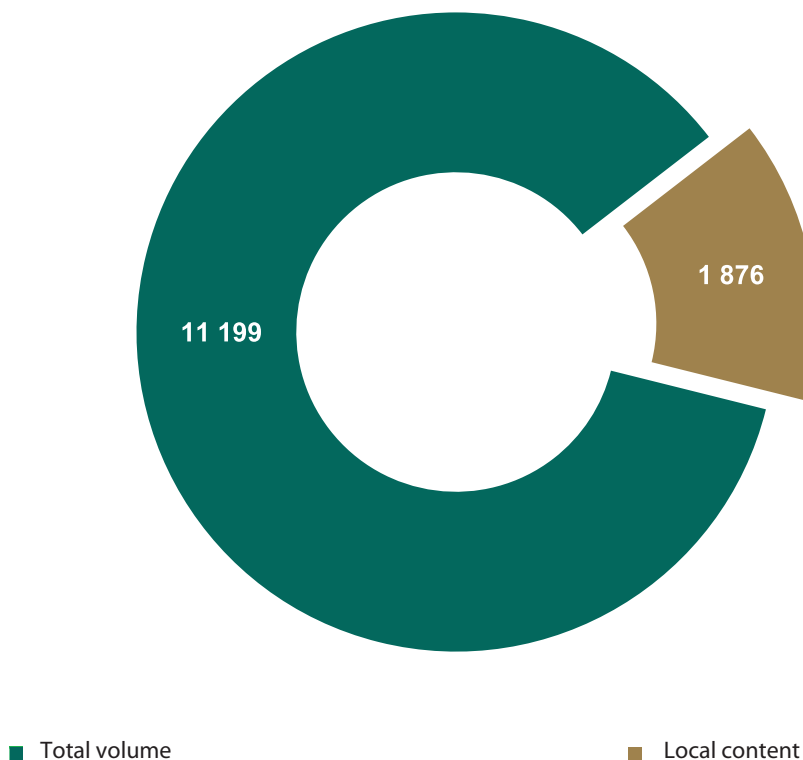
## Local content in procurement

The total procurement for the company's group after 2016 was 11 199 million. Tenge, with local content in procurement amounting to 16.75% or 1 876 million. Tenge. It should be noted, however, that this amount does not include a contract for a state defence order because of their confidentiality.

Of the total amount of goods purchased, amounting to 8 595 million. Tenge, the share of Kazakh suppliers amounted to 97 million. Tenge or 1.13% of local content. The total volume of work contracts/services concluded amounted to 1 957 million. Tenge, with local content amounting to 90.90 cent or 1 779 million tenge.

The selection of suppliers is made through existing procedures on the basis of transparency and transparency in the procurement process, the acquisition of quality goods, works, services, fair competition among potential suppliers. In doing so, the security of suppliers is verified by matching the list of unreliable potential suppliers of holding and (or) the register of unscrupulous participants in government procurement.

**Total procurement of the Unit**  
JSC «NC» Kazakhstan Engineering (mln.) Tenge





REPORT  
On compliance/non-compliance with the provisions of the  
Corporate governance code  
Samruk-Kazyna in 2016

Approved by decision of the Board of Directors of the JSC «NC» Kazakhstan Engineering of May 16 2017  
Protocol No. 3



№	Provisions of the Code	Name of activities
1	2	3
<b>1. The government as a fund shareholder</b>		
1.1	The participation of members of the Government shall not be permitted. Government officials of the Board of Directors of the	The participation of members of the Government shall not be permitted. Government officials of the Board of Directors of the
<b>2. Interaction between the Fund and the company. The Fund's role as the national manager of holding</b>		
2.1	The fund sends each year to the President of the Board of directors and the Fund's representatives to the board of Directors of the company's expectations for the forthcoming fiscal year. The company is taking action to fulfil the expectations of the sole shareholder	Taking action to fulfil the expectations of the sole shareholder
2.2	The Fund participates in the management of companies through the functions of the shareholder, as well as through the board of Directors, in accordance with the procedures defined by the company statutes and this code. The corporate governance system and the decision-making process of the holding company should be clearly established and regulated in the statute and documents, both the holding company and the organizations in its group.	Reviewing and revising the statutes of the company and organizations of the company group to formalize the corporate procedures established by the code.
<b>3. Sustainable development</b>		
3.1	The company must have a sustainable development management system that includes adherence to the principles of sustainable development at the level of the BD, the board and the workers.	To coordinate all activities in the area of sustainable development with one of the existing structural units. The competencies and responsibilities of all employees of the unit should be clearly defined and established. The members of the management Board of the Company must bear some responsibility for coordinating all activities in the field of sustainable development.
		Organization of training, trainings for responsible employees and subsidiaries and provision of methodical support to the subsidiaries company for Sustainable Development
		Delegating the functions of one of the existing committees to the BD to address sustainable development issues

Respected/Is not followed/	Explanation of compliance/non-compliance
4	5
<b>1. The government as a fund shareholder</b>	
Respected	The order of the Minister of Defence of the RK of 4 May 2016 No. 216 elected the Board of Directors of the new company. Sauranbayev N.E., (Deputy Minister of Defence of the RK) of Rau A.P. (first vice-minister of Investment and Development of the RK) was excluded from the company board of Directors
<b>2. Interaction between the Fund and the company. The Fund's role as the national manager of holding</b>	
Respected	In accordance with the letter of the Samruk-Kazyna of 26.04.2016, No. 09-1-20-02/1383, addressed to the Chairman of the Board of Directors of Sauranbayev N.E., the expectations of the sole shareholder of the company were presented. Board of Directors of the company by a decision of 24 May 2016, Protocol No. 5 approved a plan of activities to realize the expectations of the sole shareholder at 2016-2020 GG.
Respected	The decision of the Samruk-Kazyna was amended and supplemented by the company's statute of August 08, 2016 (Protocol No. 29/16).
<b>3. Sustainable development</b>	
Partially Respected	The order of the President of the board dated 16 August 2016, No. 48, distributes and establishes responsibility among the members of the Board of the company for coordinating all activities for the sustainable development of the company. Also, on 9 December 2016, a workshop on sustainable development was held with the participation of the coach Kuanbaevoj E. is the deputy director of the Department of Labour Protection and Environment of the JSC «NC KazMunayGas». Pursuant to the mandate of the Protocol, the meeting of the Working Group on Sustainable Development of 27 December 2016, the members of the Working Group are being sent to study international standards on sustainable development. In addition, the decision of the Board of Directors of the Company (Protocol No. 8 of 16.09.16) amended and supplemented the regulation on the Strategy and Investment Committee in the delegation of competence to deal with the sustainable development of the company



№	Provisions of the Code	Name of activities
1	2	3
3.2	<p>The company must have a sustainable development management system that includes, but is not limited to, the following elements:</p> <ul style="list-style-type: none"> <li>-Analysis of the internal and external situation of the three constituents (economics, ecology, social issues);</li> <li>-Identification of risks for sustainable development in the social, economic and environmental fields;</li> <li>-Building a map of stakeholders and how to interact with them;</li> <li>-Identification of objectives and efficiency in sustainable development, development of a plan of activities and identification of responsible persons;</li> <li>-Integration of sustainable development into key processes, including risk management, planning, human resources management, investment, accountability, operational activities and others, as well as in development strategies and decision-making processes;</li> </ul> <p>Regular monitoring and evaluation of sustainable development activities, assessment of achievement of objectives and efficiency, adoption of corrective measures, introduction of a culture of continuous improvement.</p>	<p>Establishment of a working group on sustainable Development at the corporate level, with the inclusion of representatives of key child organizations («Zenit Bonds», JSC, «the factory». M. Kirov, JSC Pztm, JSC Ecomed, JSC family Engineering, JSC Munajmash</p> <hr/> <p>Organization of interviews, seminars/round tables with key in-house stakeholders to harmonize international standards that a company can apply in the area of sustainable development Harmonization with the risk management structure of the completeness of the sustainable development risk Register in three components (economics, ecology and Social Affairs)</p>

### 5. Effectiveness of the Board of directors and the Executive Body

#### Composition of the BD and of the BD Committees

5.1	<p>In companies whose voting shares are owned by the fund, the President of the BD is elected by the sole shareholder; If the chair of the BD is to be elected from among the representatives of the Fund, the BD shall be elected by a senior independent director from among the autonomous Directors</p>	<p>Consideration of the need for the appointment of a senior independent director from among the independent directors as required by the code.</p>
5.2	<p>The Independent Director should monitor the possible loss of independence and notify the President of the Board of directors in advance when there are such situations. In the event of circumstances affecting the independence of a member of the Board of Directors, the President of the Board shall immediately communicate the information to the shareholders for appropriate action.</p>	<p>The inclusion in the contract of independent directors of an item stating that the Independent Director should monitor the possible loss of independence status.</p>

Respected/Is not followed/	Explanation of compliance/non-compliance
4	5
Partially Respected	A working group was established by an order of the President of the company on 3 November 2016 (Order No. 63) of the Chairman of the company board, and a round table attended by all interested persons in the Company (Protocol No. 1 of 27 December 2016) The register of Risks for the year 2017, including risks for components of sustainable development, has been approved by a decision of the board of Directors of the Company of 14.12.2016, (Protocol No. 10).

### 5. Effectiveness of the Board of directors and the Executive Body

#### Composition of the BD and of the BD Committees

Respected	Under the Corporate governance Code, a senior independent director is appointed if the fund's chairman is a representative of the Board of Directors. In the company, a representative of the Fund on the board of Directors is not the chair of the BD, and therefore there was no need to elect a senior independent director
Respected	This item is entered into a contract with independent directors of the company



№	Provisions of the Code	Name of activities
1	2	3
<b>5. Effectiveness of the Board of directors and the Executive Body</b> <b>Composition of the BD and of the BD Committees</b>		
5.3	The level of remuneration of board members should be sufficient to attract, retain and motivate each member of the board of directors at the level required for the successful management of the Organization. The award of remuneration to a member of the board of Directors of the Organization shall be in accordance with the methodology developed by the Fund and shall take into account the expected positive effect for the organization from the participation of the person in the board of directors.	Preparation of proposals to the Fund and to do so to the remuneration of independent directors.
5.4	In organizations whose operations involve the risk of technological disasters (e.g. industrial companies, aviation and rail), safety and environmental protection committees should be established.	In organizations whose operations involve the risk of technological disasters (e.g. industrial, companies and aviation), safety and rail protection environmental to be a were.
<b>Эффективность совета директоров</b>		
5.5	The members of the BD are required to discharge their responsibilities properly and to ensure the growth of the long-term value and sustainable development of the company. The BD should be endowed with sufficient authority to manage the company and control the performance of the board. The Government provides the company with full operational autonomy, and the BD and the company board must make decisions in accordance with their powers under the Charter and the company code.	Make a proposal to the Fund and do that important issues that are accepted by Du and the fund are previously considered by the Board of Directors of the company at an early stage. At the same time, it is essential to adhere to the sequence of all key corporate decisions that require preliminary analysis and consideration of issues at the level of the company's BD

Respected/Is not folowed/ 4	Explanation of compliance/non-compliance 5
<b>5. Effectiveness of the Board of directors and the Executive Body</b> Composition of the BD and of the BD Committees	
Respected	By an order of 04.05.2016, the remuneration of independent directors of the company is determined.
Respected	<p>The decision of the Board of Directors (Protocol No. 8 of 16.09.16) to the Committee on Strategy and Investment of the BD on safety and environmental protection.</p> <p>Paragraph 3.5. The following changes have been made: 3.5.1. Analyse the status of cases, risks and make recommendations to improve the security of the company;</p> <p>3.5.2. Development of a company environmental protection policy-as a component of sustainable development-aimed at minimizing impacts on natural systems, optimizing the use of resources, the application of environmentally friendly, energy-and material-conservation technologies, the creation of sustainable products, minimizing, processing and destroying waste;</p> <p>3.5.3. Preliminary consideration in the environmental protection dimension of the company's investment projects;</p> <p>3.5.4. Risk analysis and recommendations for improving corporate governance in the environmental field, effective interaction and coordination of the Company's activities in the implementation of environmental policies.</p>
<b>Эффективность совета директоров</b>	
Partially Respected	The company's statute clearly delineates the competence of the sole shareholder board of directors and Executive Body in addition, by letter dated 12 January 2017, No. 54, and sent to the sole shareholder that the most important issues of the Du and the fund were previously considered at the Board of Directors of the company at an early stage.





№	Provisions of the Code	Name of activities
1	2	3
<b>Эффективность совета директоров</b>		
5.6	<p>The key functions of the Chair of the BD include:            (1) Scheduling of meetings of the BD and establishment of an agenda;            (2) to focus the BD on strategic issues and Minimizing the current (operational) issues to be addressed by the BD;            (3) Maximizing the impact of the meetings of the BD through Allocation of sufficient time for discussion, full and in-depth consideration Issues on the agenda, stimulating open debates, achieving agreed Decisions</p>	<p>Development and approval of the planning procedure by the Chair of the BD meetings of the BD, including:            -Formation of the agenda of the BD, taking into account the issues to which the BD should pay special attention under the Code, and their ad-vance planning to allow sufficient time for a detailed and in-depth discussion of all issues on the agenda.            -Allocation of the total time allotted to the BD on the agenda items that focus the BD's attention on strategic issues</p>
	<p>To ensure that the BD focuses on strategic issues and minimizes the current (operational) issues to be addressed by the BD;</p> <p>The BD must make decisions on the basis of complete, reliable and quality information.</p>	<p>The development and approval of the requirements for the minutes of the meetings of the BD, the completeness and details of the discussions and decisions taken, especially on issues to which the BD should pay special attention under the code.</p> <p>The corporate Secretary receives formal feedback from all members of the company's BD on the quality and timeliness of the CD meeting material. Based on these feedback, make an objective assessment of the quality of the materials and develop a plan of action to improve them for the Corporate Secretary and the board.</p> <p>Установление минимальных требований к материалам для заседаний СД, включая структуру (краткий обзор, детальное описание вопросов, форму анализа и рекомендаций Правления или соответствующего Комитета и др.) на основании обсуждения со всеми членами.</p>
5.7		<p>Consider the use of tablets and other mobile devices for CD materials and meetings.            Significant savings in time and paper re-sources, the availability of a single source for materials from previous meetings of the BD, effective communication between BD mem-bers and the company, and the possibility of using document libraries are positive effects. However, to use mobile devices, members of the BD must establish and follow appropriate IT security procedures, such as strong password policies, full data encoding, and the ability to delete data in the event of theft or loss.</p> <p>Introduction of the practice of assessing the quality and timeliness of inputs to the CD meet-ing. Provide feedback on the outcome of this assessment to the board and other persons who contribute to the meetings of the BD.</p> <p>Inclusion of the criterion «quality of materials for meetings of the BD» in the assessment of the effectiveness of the Corporate Secretary and board members.</p>

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not folowed/	Explanation of compliance/non-compliance
4	5
<b>Эффективность совета директоров</b>	
Respected	By decision of the Board of Directors (Protocol No. 10 from 14.12.2016) Preliminary consideration, changes have been made to the board of Directors of the company, where the functions of the BD chairman regarding the planning and conduct of meetings of the BD have been expanded.
Respected	The decision of the company's sole shareholder from the 08.08.2016 year (Protocol No. 29/16) approved the changes and additions to the Statute of the firm, which required that the members of the BD should be required to send materials on the most important and strategic issues at least 15 working days prior to the date of the meeting of the BD. The decision of the Board of Directors of the Company (Protocol No. 10 of 14.12.2016) has been previously reviewed, changes have been made to the company's board of Directors regulations, which provide for requirements for the products of the BD and the BD
Respected	The corporate Secretary conducted a questionnaire for the members of the BD, assessing the quality of the products of the BD, in addition to the decision of the Committee on the Appointment and remuneration of the BD (02.09.2016 Protocol No. 5), the company has approved a plan of activities to improve the quality of the materials of the Board of Directors of the
Respected	Решением Совета директоров Компании (Протокол № 10 от 14.12.2016 г.) предварительно рассмотрены, внесены изменения в Положение о Совете директоров Компании, установлены минимальные требования к материалам, вносимым на рассмотрение СД, а также к протоколам СД.
Respected	Meetings of the Board of Directors are conducted using electronic devices (laptops). A secure exchanger file has also been created to convey information to members of the BD on agenda and other issues.
Соблюдается	The corporate Secretary conducted a questionnaire for the members of the BD to assess the quality of the CD materials. In addition, a decision by the Committee on the Appointment and remuneration of the BD (from 02.09.2016 G. Protocol No. 5) that the company has approved a plan of action to improve the quality of the company's board of directors in 2017
Is not folowed	At the time of the approval of the Corporate Governance Improvement plan and the implementation of the Corporate governance Code, the efficiency of board members and the corporate Secretary had already been approved. This criterion will be included in the assessment of board members and the corporate secretary in 2017.



№	Provisions of the Code	Name of activities
1	2	3
5.8	<p>According to the codec, the BD should be given sufficient authority to manage the organization and to oversee the activities of the Executive Body. The law of the RK «on shareholders ' societies» also refers to the consideration and approval of transactions in which there is an interest in the liability of the BD. OECD manual «Principles of Corporate governance of public enterprises»</p> <p>The year 2015 refers to transactions in which there is an interest in a substantial</p> <p>Transactions where there is a conflict of interest. In accordance with the code, independent directors should be actively involved in the discussion of issues where there may be a conflict of interest, including (the conclusion of transactions for which there is an interest).</p>	<p>The establishment of a numerical threshold and certain qualitative characteristics according to which transactions with an interest will be classified as significant or insignificant.</p> <p>The quantity threshold can be defined as a percentage of the company's net profit, revenue, or assets.</p> <p>Transactions exceeding a specified threshold or having certain qualitative characteristics need to be reviewed and approved by the company's BD.</p> <p>The review and approval of transactions of a insignificant nature may be attributed to the authority of the Board.</p> <hr/> <p>Introduction of proposals, if any, to the Fund on the possibility of making appropriate adjust-ments to the «rules for the conclusion of trans-actions between the organizations belonging to the Fund group»</p>
5.9	<p>The main element in assessing the effectiveness of the company's board is</p> <p>Efficiency system. The Fund, through its representatives to the BD, sends the companies its efficiency expectations. The company's SR is approved by the company's list and objectives. In order to achieve efficiency, companies are developing appropriate development plans. The efficiency of the company is assessed on an annual basis compared to the approved development plan. This assessment affects the remuneration of the manager and the members of the Board, is taken into account in their re-election, and may also be</p> <p>The reason for their removal from office was early. The executive and board members are evaluated by the BD.</p> <p>The main criterion for evaluation is the achievement of efficiency. The motivational efficiency of the head and board members is confirmed by the BD.</p> <p>Proposals for the motivational efficiency of members of the Board are introduced by the head of the Board for consideration by the BD. The results of the assessment affect the amount of remuneration, promotion, re-election (appointment) or early termination.</p> <p>The assessment of the achievement of strategic objectives is determined through long-term efficiency.</p>	<p>Review of the procedure for review and approval of the efficiency of board members and, if necessary, make changes to ensure their approval by the company's BD</p>

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not folowed/ 4	Explanation of compliance/non-compliance 5
Respected	Amendments and additions to the company's statute were approved by the Board's decision of the JSC Samruk-Kkazyna of 08 August 2016 (Protocol No. 29/16). In the discussion, it was determined that there was no need to define the threshold of substantivity in the consideration and approval of transactions.
Respected	The proposals in the JSC «Samruk-Kkazyna» on the possibility of making appropriate changes to the «rules for the conclusion of transactions between organizations belonging to the Samruk-Kkazyna group» in the Advance «Samruk-Kkazyna» were sent in a letter dated 15 December 2016, No. 1847-and
Respected	The Board of Directors of the company conducts an analytical review of the efficiency of the board members each year when the efficiency is approved for the reporting period



№	Provisions of the Code	Name of activities
1	2	3
5.10	<p>The BD holding company must ensure management efficiency, growth of long-term Cost and sustainable development at all legal entities within its group.</p> <p>The results of good governance in a holding company group to be</p> <p>Improved operational efficiency, improved reporting quality, improved</p> <p>The standard of corporate culture and ethics, greater openness and transparency, risk reduction, and an-appropriate internal control system. Holding companies should implementMaintain a functioning state and continually improve management systems in its group</p>	<p>Completion of the restructuring process and the sale or liquidation of unprofiled assets according to the schedule approved by the company's BD</p>
5.11	<p>The BD approves the induction programme for the newly elected members of the BD and the professional development programme for each member of the BD. The Corporate Secretary provides the implementation of these programs.</p> <p>Members of the BD who are elected for the first time are subject to the introduction programme after their appointment. In the process of induction, the BD members examining with their rights and Responsibilities, key aspects of the activities and instruments of the Fund and the Organization, including those related to the most risks</p>	<p>To update the existing introduction programme for newly elected members of the BD in the light of accepted international practice (e.g., Senior secretaries and Administrators (ICSA) for placement for newly elected members of the directors) and, if necessary, review it to en-sure compliance with the requirements of the Code.</p> <p>Development and approval of a procedure for monitoring the implementation of the induction programme for newly elected members of the BD, i.e., the actual completion of the full intro-duction programme by all the newly elected members of the BD. The monitoring results and feedback from the newly elected members of the BD should be taken into account in the evaluation of the Corporate Secretary</p>

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not folowed/ 4	Explanation of compliance/non-compliance 5
Partially Respected	The decision of the Board of Directors of the Company of 14.12.2016 (Protocol No. 10) approved the plan for the restructuring of the company's assets in 2017, and also took note of the information on the implementation of the plan for the restructuring of the company's assets in 2016 and of the comprehensive privatization plan for the company's assets. Work in this direction will continue
Respected	By decision of the Board of Directors (Protocol No. 8 of 16.09.16) In accordance with the requirements of the Corporate governance code and the ICSA leadership, an updated programme has been approved for the inauguration of the newly elected members of the company's board of directors. In pursuant with which corporate Sekrertar is otvetsvennos for the completion of the induction procedure by the newly elected members of the BD and reports to the Board of Directors on the completion of the programme by the newly elected members of the BD. According of the Order of the 04.05.2016 Trustee of the Year No. 216, the BD has been elected in the new composition, and in this regard, the Corporate Secretary service has initiated procedures to administer the newly elected members of the BD



№	Provisions of the Code	Name of activities
1	2	3
<b>Improved assessment of the effectiveness of the BD and subsequent analysis of the results</b>		
5.12	<p>The BD, committees and members of the BD shall be evaluated on an annual basis within the framework of a structured process approved by the BD. The process should be consistent with the Fund's methodology. At least once every three years, the evaluation is carried out with</p> <p>Involvement of an independent professional organization.</p> <p>The assessment should make it possible to determine the contribution of the BD and each of its members to the growth of the long-term value and sustainable development of the company, as well as to identify directions and recommend</p> <p>Measures for improvement. The results of the assessment shall be taken into account in the re-election or early termination of the terms of office of the members of the BD</p>	<p>To make proposals to the Fund to develop clear criteria for evaluating the BD, committees and members of the BD, which should reflect the company's current needs and requirements, as well as its strategic objectives</p> <p>To submit to the Fund proposals for the establishment of clear annual self-evaluation processes and independent evaluation of the BD, committees and members of the BD every three years as required by the code</p>
<b>Corporate Secretary</b>		
5.13	<p>For the professional performance of his duties, the Corporate Secretary must</p> <p>Have knowledge, experience and skills, a perfect business reputation, and trust in the BD and shareholders.</p> <p>A person with a higher Legal or economic education with at least five years of experience and Practical knowledge in the area of corporate governance and corporate law.</p> <p>The corporate Secretary's search and appointment should be based on an open and Transparent procedures jersey internal documents of the organization.</p> <p>The main responsibility of the Corporate Secretary is to ensure timely and quality corporate decisions by the BD and the general meeting of Shareholders (sole shareholder), ensuring effective interaction of the BD, the Executive Body with the shareholders (the sole shareholder). In addition, the functions of the corporate secretary include overseeing good corporate governance practices.</p> <p>In order to enhance the effectiveness of the preparation and holding of meetings of the BD, it is recommended that the completeness and usefulness of the materials provided to board members be discussed periodically</p> <p>The results of these discussions provide a basis for an assessment of the effectiveness of the Corporate Secretary</p>	<p>Review of professional qualification requirements for the Corporate Secretary in accordance with the code (chap. 5, para. 15). In this analysis, consider and approve, if necessary for the company, the professional qualification requirements recommended by the Institute of Chartered Secretaries and Administrators (ICSA) and the professional qualifications possessed by corporate secretaries of companies from the FTSE250 index listed on the London Stock Exchange</p> <p>Conduct a detailed assessment of the skills and experience of the existing Corporate Secretary in accordance with the above requirements. Identify areas for improvement and prepare a development plan</p> <p>Establish a goal for the Corporate Secretary to obtain internationally recognized qualifications, such as Charteredsecretariesqualifyingscheme for 3-4 years (2016-2019 gg).</p> <p>Create a guide and training plan to accomplish this task.</p> <p>Development and establishment of the Corporate Secretary for the year 2016, based on the areas identified in the survey, for further improvement</p> <p>Establish a transparent process for the selection of candidates for the position of Corporate Secretary and consolidate the company's internal documents.</p> <p>Revision of the Corporate Secretary's provision to bring his responsibilities into line with the requirements of the Code (chap. 15, para. 15), as well as the recommendations of the Institute of Chartered Secretaries and Administrators (ICSA) on the responsibilities and lines of accountability of corporate secretaries.</p> <p>To conduct a performance evaluation of the Corporate Secretary by conducting a survey in 2016 among the members of the BD. In view of the fact that such an evaluation is being conducted for the first time, it is recommended that it be conducted with an independent party, such as an independent consultant and/or a representative of the Fund.</p> <p>To agree on a plan to transfer the leading role of the corporate Secretary in the preparation of compliance reports for the code, starting in 2016.</p>

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not followed/	Explanation of compliance/non-compliance
4	5
<b>Improved assessment of the effectiveness of the BD and subsequent analysis of the results</b>	
Is not followed	<p>The assessment of board members by the Director was not possible due to the fact that the board of directors for 2016 had been changed twice.</p> <p>In connection with the procedures for the induction of the newly elected members of the board of directors, there was insufficient time to carry out the evaluation of the board of Directors.</p> <p>In 2017, it is planned to make the board members more effective in line with the Fund's methodology and other necessary procedures</p>
<b>Corporate Secretary</b>	
Respected	<p>By decision of the Board of Directors of 14.12.2016, (Protocol No. 10) a new version of the Corporate Secretary was approved in accordance with the requirements of the Corporate Governance Code, which revised the competency requirements for the Corporate Secretary and established a transparent process for selecting candidates for the position of Corporate Secretary through an open competition. In addition, a survey was conducted by the members of the BD, to determine the professional skills of the current Corporate Secretary and to identify areas for improvement, on the basis of which the company's decision on the Appointment and Reward Committee (from 02.09.2016 G. Protocol No. 5) approved the development plan for the Corporate Secretary of the JSC «Kazakhstan Engineering» and the manager of his apparatus for 2017-2019 Gg.</p>
Respected	





№	Provisions of the Code	Name of activities
1	2	3
<b>6.1 Risk management, internal control and auditing</b>		
<b>Risk Management</b>		
6.1.	<p>The organizational structure of the risk management and internal control system in the company should include a structural unit responsible for risk management and internal control, whose tasks include overall coordination of risk management and internal control processes, including the complex integrity of risks identified by and response to structural entities. The company's executive Board should be satisfied with the skills and experience of the employees who are managing and managing the risk.</p>	<p>A comparative analysis of the qualification requirements of the company's risk management unit with the requirements of similar international vertically-integrated companies in the defence industry. Use the results of comparative analysis to improve the qualification requirements, and the experience of key employees of the company's Corporate risk Management Unit and its principal subsidiaries. It is also recommended that the «risk management» professional standard be used for the Samruk-Kazyna group of Companies, adopted on 30 December 2014.</p> <p>Key requirements for the manager of the risk management function should include, at a minimum, considerable experience in the defence industry, excellent communication skills and financial knowledge, preferably confirmed by internationally recognized professional diplomas in corporate finance and accounting.</p> <hr/> <p>Consider the possibility of engaging an independent party to assess the effectiveness of the risk management system. The Fund's methodology for assessing the effectiveness of the risk management system recommends that such an independent evaluation be conducted at least once every three years.</p> <p>The Audit committee and the BD should discuss and approve the results of the evaluation and the related plan of activities</p>
6.2	<p>The BD of the company should define principles and approaches to management</p> <p>Risks and internal controls based on the objectives of the system and taking into account the Fund's best practices and methodology in the area of risk management and internal control.</p> <p>The BD should adopt a general level of appetite for risk and levels of tolerance for key risks. The BD, when considering the register and the risk map, should make sure that it includes risks that may actually affect the implementation of the strategic objectives, and when considering the risk-response plan, make sure that it is useful</p> <p>Activities.</p>	<p>Detailed discussions of the company's key risks and activities are reflected in the minutes of the meetings of the Audit Committee and the Strategy and Investment committee, as opposed to meetings of the BD itself. The CD's meeting minutes should reflect the fact that the BD has devoted a substantial amount of meeting time to the review and discussion of key risks and the acceptability of appropriate mitigating actions.</p>

Respected/Is not folowed/	Explanation of compliance/non-compliance
4	5
<b>6.1 Risk management, internal control and auditing</b>	
<b>Risk Management</b>	
Respected	<p>It is not possible to analyse the qualification requirements for a company's risk management staff with similar international vertical-integrated companies in the defence industry, because such companies do not post information on the availability, quantity and qualification requirements of the risk Management unit.</p> <p>However, a decision of the company's board of 28 December 2016 (Protocol No. 45/16) supplemented the rules for the competitive selection of the administrative posts of the JSC «NCS Kazakhstan Engineering» as part of including the qualification requirements for the company's risk management officer, including:</p> <ul style="list-style-type: none"> <li>-Seniority of the defence industry for at least two years;</li> <li>-Communication capabilities;</li> <li>-Availability of international certificates in corporate governance and corporate finance.</li> </ul>
Is not folowed	<p>In setting up the budget for 2016, the risk Management Unit is presented with an application to purchase consultancy services to assess the enterprise's risk control system. These costs have not been included in the approved budget of the company for 2016.</p> <p>Accordingly, in 2016, no independent consultants were engaged to evaluate the corporate risk management system.</p> <p>The 2017 budget provides for the cost of bought consultancy services to evaluate the corporate risk management system. Following competitive procedures with the LLP «KPMG: The Advisory», a contract was concluded for the purchase of risk management consultancy services of 07 April 2017</p>
Respected	<p>A detailed discussion of the key risks is contained in the Board of Directors ' and the company's audit committee. In addition to the board of Directors regulation, the risk management issues of the company are classified as issues by which the board of Directors pays special attention in its meetings.</p>



№	Provisions of the Code	Name of activities
1	2	3
<b>6.1 Risk management, internal control and auditing</b>		
<b>Management of risks</b>		
6.3	<p>The risk management and internal control system of the Fund and organizations should be based on a high culture of risk management. Risk-management culture should be established by the Board and should include procedures for the identification, assessment and monitoring of all significant risks, as well as the adoption of timely and adequate measures to reduce risks that may adversely affect the achievement of strategic objectives, the implementation of operational objectives and the company's reputation</p>	<p>Include risk reports in monthly management information to speed up the relationship between efficiency and related risks</p> <hr/> <p>Conduct of quarterly cross-functional meetings for business, production, administration and other business units by the risk Management Unit, which is also required by the current risk management policy of the Fund</p> <hr/> <p>Introduction of a system of early detection and timely response to changes in internal and external market conditions, force majeure situations. To ensure that the risk map is immediately reassessed and that it meets the risk of appetite, changes in the external market and the competitive environment. Introduction of a summary of changes in internal and external market conditions at the periodic meetings of the BD on the implementation of the strategy</p> <hr/> <p>The organization of free access is available to all employees and officials who must understand the principles and approaches for risk management and internal control, and to be aware of the best practices in this area. The staff of the Fund and organizations are required to receive training/ orientation to familiarize themselves with the risk management and internal control system adopted each year, as well as in recruitment. The results of such training should test knowledge</p>
<b>Internal Audit</b>		
6.4	<p>EAS should strictly adhere to the standards requirements for the professionalism of internal auditors, providing that internal auditors should have the knowledge, skills and other competencies necessary for the effective performance of their functions</p>	<p>Analysis of the EAS company for staffing, competencies and professional qualifications compared to similar international companies from the defence industry. Use the results of such analysis to revise the staffing, required professional qualifications, skills and experience of key employees of the EAS company</p> <hr/> <p>Conduct an assessment of the staffing and competencies of the existing EAS using revised requirements as a result of the comparative analysis described earlier in this report. Identify lack of competencies and prepare a plan of activities for training and refresher training of current staff EAS or recommendations for re-placement or additional recruitment, if necessary Conduct an analysis of the efficiency of the current efficiency established for the EAS company, taking into account the results of the comparative study on the defence sector conducted by the Global Audit Information Network (GAINS) at the Institute of Internal Auditors (IIA). Update the efficiency set for the EAS company</p>

Respected/Is not folowed/	Explanation of compliance/non-compliance
4	5
<b>6.1 Risk management, internal control and auditing</b>	
<b>Management of risks</b>	
Respected	<p>Report management forms include reports that enable you to collect related risk management data. In addition to this, this functionality will be enhanced with the introduction of System 1 C: ERP in 2017 at the company and before. In the meetings of the risk Committee, detailed discussions on cross-functional risks are ongoing. In particular, in the fourth quarter of 2016:</p> <p>(1) The meeting of 06 October 2016 discussed the risks of performance of the terms of the Treaties Goz for 2016 and the risks of accounting and monitoring of company treasury operations;</p> <p>(2) At the 15 nojabrja2016 session, the risks of non-performance of the AB «factory» were discussed. m. Kirov of obligations to the JSC People's Bank of Kazakhstan, risk of non-performance of advance «machine factory. M. Kirov «contract obligations with the AB Rosoboronekспорт», the risk of not reclaiming the debt of the JSC «families Engineering» to the company, the risk of not implementing a share of the company's subsidiaries and dependent organizations.</p>
Partially observed	<p>The decision of the Board of Directors of the company of 14 December 2016 (Protocol No. 10) approved the additions to the rules for identification and risk assessment of the JSC Kazakhstan Engineering, as part of the introduction of a timely response to changes in the internal and</p> <p>External market, force majeure, ensuring an immediate reassessment of the risk map and its relevance to appetite, changes in the external market and competitive environment, and the introduction of a summary of changes in the domestic and external market. A seminar on the risk management and internal control system for new employees was held on December 27, 2016.</p> <p>All participants completed the introduction to the risk management system and the internal Control.</p>
<b>Internal Audit</b>	
Respected	<p>Decision of the Board of Directors Audit Committee of 06.12.2016 G. (Protocol No. 9) approved the report of the EAS company's analysis of staffing, competencies and professional qualifications compared to similar international companies from the defence industry. Need for evaluation and staffing and competencies of existing EAS, in connection with the reappointment of EAS in September 2016, the necessary procedures were conducted on the basis of an open competition for the search and selection of candidates</p>
Respected	



№	Provisions of the Code	Name of activities
1	2	3
<b>6.1 Risk management, internal control and auditing</b>		
6.5	<p>The EAS regulation should also provide that EAS coordinates the activities of the External Auditor as well as those providing counselling services in the field</p> <p>Risk management and internal controls, corporate governance.</p>	<p>To ensure the preparation of the annual audit plan using risk assessment and other risk reports prepared by the risk management company team and approved in the fourth quarter of 2015 of the BD</p> <p>Conduct cost-benefit analysis on the wider use of information technology in data analysis conducted by a EAS company, with a view to in-depth analysis of business and stronger integration with risk management, other protection lines, and business partners</p> <p>Discussion and agreement with the company board and External Auditor of the three-year plan (2016-2018) on the transition to audit based on internal controls</p>
<b>Mechanisms for confidential reporting of violations and abuses</b>		
6.6	<p>The fund develops standards of business ethics, the activities of the Ombudsman, an effective system of notification of alleged violations («confidential Information System»).</p> <p>The company's BD ensures the implementation and compliance of these standards. Officials and employees of the company should receive regular training aimed at understanding the code of Business ethics, the role of the Ombudsman and the availability of confidential information mechanisms.</p> <p>Within the risk management and internal control framework, a safe, confidential and accessible method should be organized (confidential information line) to inform the BD (Audit Committee) and EAS of violations</p> <p>Legislation of the Republic of Kazakhstan, internal procedures, code of business ethics by any employee and official</p>	<p>Adopt a unified privacy policy and its implementation in the company and its subsidiaries</p> <p>Secure a confidential information system for the responsible person</p> <p>Introduction of confidential information mechanisms allowing for rapid analysis and action. The company and its affiliates must have a unified approach for processing notifications.</p> <p>Development of a consolidated registry and a unified notification processing system, taking into account the integrity of registration, the faithful storage of notifications (including: manual, electronic and audio formats) in a secure database, confidentiality, processing time, documentation of responses and follow-up procedures.</p> <p>The implementation of an information programme on the mechanism for confidential reporting in the subsidiaries, and the publication of information on communication lines on the corporate web site; Distributing the phone number/address of an electronic address to employees, trade unions. Such publications should briefly explain the content of the anonymous information policy.</p> <p>Conduct training on anti-corruption and fraud measures for the BD, BD Committees, board, heads of divisions, other employees of the company and its subsidiaries, as well as third parties. This will enhance the awareness of existing mechanisms for confidential reporting to the organization.</p> <p>The training should be aimed at the interests of the participants and should cover all risks associated with specific job responsibilities.</p>

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not folowed/	Explanation of compliance/non-compliance
4	5
<b>6.1 Risk management, internal control and auditing</b>	
Respected	<p>The annual audit plan for 2016 was approved by the company's board of directors, taking into account the risk map approved by the company and the approved risk reports. Also by decision of the Board of Directors Audit Committee of 06.12.2016 G. (Protocol No. 9)</p> <p>A report on the cost-benefit analysis was approved for the wider use of information technology in the analysis of data conducted by EAS.</p>
<b>Mechanisms for confidential reporting of violations and abuses</b>	
Respected	<p>The decision of the Board of Directors of the company of 14 December 2016 (Protocol No. 10) approved a policy of confidential reporting. In addition, the order «on measures to implement the decision of the Board of Directors of JSC Kazakhstan Engineering» of the 14.12.2016 Year (Protocol 10) stipulated that the persons responsible for the activities of the authorized person were ordered by the President of the Board from 30.12.2016 No. 74.</p> <p>Also, article 6 of the Confidential information policy, approved by a decision of the board of Directors of the company of 14 December 2016 (Protocol No. 10), there are 3 levels of confidential reporting, allowing for rapid analysis and appropriate action in article 6 of the policy, the procedure for the processing, registration of notices and the maintenance of a consolidated notice registry, and the requirement to ensure protection against unauthorized access to the confidential information database; Article 6 of the Confidential information policy, approved by a decision of the board of Directors of the company of 14 December 2016 (Protocol No. 10), provides for the handling of notifications by authorized persons, informing the notifiers of the results of the notifications and decisions taken, providing written reports to the audit Committee, including on a regular basis information on the notifications reviewed, the decisions taken, the status of policy implementation on the agenda of the Board of Directors to assess the effectiveness of policies and ways of improving internal controls , inclusion of information in the company's annual report;</p> <p>Article 6 of the Confidential information policy approved by the Board Directors of the company, of 14 December 2016 (Protocol No. 10), provides for the handling of notifications by authorized persons, informing the notifiers of the results of the notifications and decisions taken, providing written reports to the audit Committee, including on a regular basis information on the notifications reviewed, its decisions, the status of policy implementation on the Board's agenda to assess the effectiveness of policies and ways to improve internal controls, including information in the company's annual report.</p>



№	Provisions of the Code	Name of activities
1	2	3
<b>7. Transparency</b>		
7.1	The Fund, company and organizations whose shares or bonds are traded on the stock exchange, the audited annual financial statements prepared in accordance with IFRS, as well as the financial statements prepared in accordance with IFRS for the first quarter, in half a year and during the first nine months of the reporting period, should be posted on its Internet resource in a timely manner.	The Audit Committee of the Board of Directors of the Organization should meet regularly with an external auditor in the audit process
<b>Correspondence between the company, the Fund and the public authorities</b>		
7.2	Disclosure requirements should not make the organization redundant Administrative burden or unjustified expenditure.	Creation of a function and processes for interaction with the Government of the RK and the public authorities (GR) in the company. The GR must take into account incoming correspondence from the government and public authorities on such criteria as correspondence from the state as a shareholder, correspondence from the state as a regulator, and correspondence outside the company's competence. Based on this accounting, the company needs to conduct an analysis to develop proposals for optimizing correspondence and building relationships with stakeholders. Keeping the COP informed of the flow of information with the sole shareholder, the trustee and the public authorities, and ensuring that the rights of the company's shareholder are exercised in accordance with the provisions of the Code, the contract of Trusteeship, the Charter and the law
	The annual report should be prepared and posted on the Internet resource prior to the Annual general Meeting of shareholders. The annual report is approved by the BD.	Prepare a standard annual report template

## On compliance/non-compliance with the provisions of the Corporate governance code Samruk-Kazyna in 2016

Respected/Is not folowed/	Explanation of compliance/non-compliance
4	5
<b>7. Transparency</b>	
Respected	The audit Committee held several meetings with external auditors in the course of 2016, including meetings at an early stage in the planning of financial reporting audits.
<b>Correspondence between the company, the Fund and the public authorities</b>	
Respected	<p>On 10 November Shevchenko, a seminar meeting was held at 17.00 with the participation of Rakhmetova N.</p> <p>On 06 December, Shevchenko sent a letter No. 1801 to the Managing director of GR-Department Samruk-Kkazyna Rakhmetova N.</p> <p>On 08-09 December, the Shevchenko fund trained a member of the GR-board and the GR-Manager.</p>
Respected	The annual report of the JSC «Kazakhstan Engineering» for 2015, approved by the Board of the JSC Samruk-Kkazyna of 16 June 2016 (Protocol No. 24/16), has been developed in accordance with the requirements of the Corporate governance code, organizations, more than 50 per cent of shares (participation)





**KAZAKHSTAN ENGINEERING**  
NATIONAL COMPANY



JSC KAZAKHSTAN  
ENGINEERING NATIONAL COMPANY  
AND ITS SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2016

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

Consolidated statement of financial position  
Consolidated statement of profit or loss and other comprehensive income  
Consolidated statement of cash flows  
Consolidated statement of changes in equity  
Notes to the consolidated financial statements

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

As described in Note 22 to the financial statements, 92% of the Group's sales for the year ended 31 December 2016 were to related parties. Our opinion is not modified in respect of this matter.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Deloitte the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Deloitte.**

**JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**

(in thousands of tenge)

	Примечания	31 декабря 2016 г.	31 декабря 2015 г.
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	23,255,690	19,756,556
Intangible assets		450,821	448,042
Investments in associates and joint ventures	8	5,802,533	6,363,709
Other non-current assets	9	1,809,983	2,110,275
Deferred tax assets	27	<u>3,103,823</u>	<u>2,880,589</u>
Total non-current assets		<u>34,422,850</u>	<u>31,559,171</u>
CURRENT ASSETS:			
Inventory	10	20,455,825	18,321,723
Trade accounts receivable	11	4,255,911	3,025,943
Income tax prepaid		1,608,078	1,017,776
Other taxes recoverable		543,930	429,428
Restricted cash		46,557	263,822
Advances paid	12	11,138,580	8,743,152
Other current assets		469,244	435,703
Short-term financial investments	13	937,196	30,503,718
Cash and cash equivalents	14	<u>9,585,854</u>	<u>19,186,014</u>
		49,041,175	81,927,279
Assets classified as held for sale		<u>435,263</u>	<u>592,755</u>
Total current assets		<u>49,476,438</u>	<u>82,520,034</u>
TOTAL ASSETS		<u>83,899,288</u>	<u>114,079,205</u>
<b>EQUITY AND LIABILITIES</b>			
EQUITY::			
Charter capital	15	21,476,802	21,476,802
Additional paid-in-capital	16	841,018	841,018
(Accumulated loss)/retained earnings		<u>(1,140,057)</u>	<u>1,673,170</u>
Equity attributable to shareholder of the Company		21,177,763	23,990,990
Non-controlling interests	17	<u>667,814</u>	<u>656,018</u>
Total equity		<u>21,845,577</u>	<u>24,647,008</u>



NON-CURRENT LIABILITIES:

Loans	18	4,932,492	-
Finance lease obligations		492,782	623,235
Employee benefits obligations		32,480	37,393
Other non-current liabilities		51,316	176,630
Deferred tax liabilities	27	645,058	960,755
Debt component of preferred shares		<u>229,885</u>	<u>229,885</u>
Total non-current liabilities		<u>6,384,013</u>	<u>2,027,898</u>

	<b>Notes</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
CURRENT LIABILITIES:			
Loans	18	25,079,205	750,000
Current portion of debt securities	18	-	68,036,056
Current portion of finance lease obligations		129,029	127,038
Trade accounts payable	19	8,449,026	3,248,977
Employee benefits obligation		7,409	11,582
Income tax payable		171,599	318,425
Other taxes payable	20	2,649,655	2,350,304
Advances received from related parties	31	15,142,306	9,771,916
Other current liabilities	21	<u>4,041,469</u>	<u>2,790,001</u>
Total current liabilities		<u>55,669,698</u>	<u>87,404,299</u>
Total liabilities		<u>62,053,711</u>	<u>89,432,197</u>
TOTAL EQUITY AND LIABILITIES		<u>83,899,288</u>	<u>114,079,205</u>

**JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of tenge)

	<b>Notes</b>	<b>2016</b>	<b>2015</b>
REVENUE	22	71,331,233	63,516,498
COST OF SALES	23	<u>(65,071,209)</u>	<u>(57,694,297)</u>
GROSS PROFIT		6,260,024	5,822,201
Administrative expenses	24	(6,369,488)	(4,539,744)
Selling expenses		(779,321)	(854,918)
Other (expenses)/income, net		(414,796)	553,236
Foreign exchange gain/(loss), net		1,068,008	(13,811,348)
Share of loss in associates and joint ventures	8	(1,074,868)	(276,995)
Finance income	25	2,908,946	6,093,250
Finance costs	26	<u>(4,588,565)</u>	<u>(2,782,339)</u>
LOSS BEFORE INCOME TAX		(2,990,060)	(9,796,657)
INCOME TAX BENEFIT	27	<u>238,255</u>	<u>1,530,239</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(2,751,805)</u>	<u>(8,266,418)</u>
(Loss)/profit and total comprehensive (loss)/income attributable to :			
относящиеся к:			
Shareholders of the Company		(2,813,227)	(8,337,487)
Non-controlling interests	17	61,422	71,069
		<u>(2,751,805)</u>	<u>(8,266,418)</u>





## КОНСОЛИДИРОВАННЫЙ ОТЧЕТ О ДВИЖЕНИИ ДЕНЕЖНЫХ СРЕДСТВ ЗА ГОД, ЗАКОНЧИВШИЙСЯ 31 ДЕКАБРЯ 2016 г.

(в тыс.тенге)

	Notes	2016	2015
<b>OPERATING ACTIVITY:</b>			
Loss before income tax		(2,990,060)	(9,796,657)
Adjustments for:			
Depreciation and amortization		1,195,403	1,135,361
Allowance for doubtful accounts		217,431	113,094
Write-off of inventory to net realizable value	10	551,269	-
Accrual of allowance for obsolete inventories	10	492,046	114,718
(Gain)/loss from property, plant and equipment and intangible assets disposal		(46,176)	10,152
Foreign exchange (gain)/loss		(1,068,008)	13,811,348
Share of loss in associates and joint ventures	8	1,074,868	276,995
Accrual of provision for warranty repair	21	138,747	258,412
Unused vacation provision and other remunerations	21	1,051,696	931,632
Other provisions		14,602	5,776
Finance income	25	(2,908,946)	(6,093,250)
Finance costs	26	<u>4,588,565</u>	<u>2,782,339</u>
Cash flows from operating activity before changes in working capital		2,311,437	3,549,920
Changes in working capital and other balances:			
Inventory		(2,673,901)	(5,311,868)
Trade accounts receivable		(1,444,507)	1,240,536
Value added tax and other taxes recoverable		(471,171)	(756,136)
Other assets		(1,105,500)	(4,090,948)
Trade accounts payable		5,171,323	(128,598)
Other taxes payable		299,351	1,238,465
Advances received from related parties and other liabilities		<u>5,337,214</u>	<u>8,513,437</u>
Cash generated from operations		7,424,246	4,254,808
Interest paid		(3,272,006)	(2,845,382)
Income tax paid		<u>(681,135)</u>	<u>(619,388)</u>
Net cash generated by operating activity		<u>3,471,105</u>	<u>790,038</u>

**INVESTING ACTIVITY:**

Acquisition of property, plant and equipment and advances paid for non-current assets		(3,986,743)	(4,736,838)
Acquisition of intangible assets		(11,483)	(2,171)
Loans given		(150,000)	(6,670,200)
Repayment of loans given		-	11,418,703
Dividends received		25,372	81,783
Proceeds from disposal of property, plant and equipment		83,402	21,880
Proceeds from selling of other non-current assets		61,380	-
Proceeds from sale of investments in associates and joint-ventures		114,569	-
Net cash outflow from acquisition of subsidiary		-	(771)
Contribution to charter capital of joint venture	8	(500,000)	-
Interest received		2,066,183	1,411,688
Placement of short-term financial investments		(67,408,207)	(46,313,457)
Withdrawal of short-term financial investments		<u>96,111,571</u>	<u>62,433,524</u>
Net cash generated by investing activity		<u>26,406,044</u>	<u>17,644,141</u>

**FINANCING ACTIVITY:**

Redemption of debt securities	18	(67,138,000)	(10,384,000)
Loans received		29,612,679	845,641
Loans repaid		(1,646,761)	(95,641)
Finance lease repaid		(128,230)	(128,230)
Dividends paid		<u>(73,799)</u>	<u>(217,815)</u>
Net cash used in financing activity		<u>(39,374,111)</u>	<u>(9,980,045)</u>
CHANGE IN CASH AND CASH EQUIVALENTS, net		(9,496,962)	8,454,134
CASH AND CASH EQUIVALENTS, at the beginning of the year	14	<u>19,186,014</u>	<u>10,451,088</u>
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>(103,198)</u>	<u>280,792</u>
CASH AND CASH EQUIVALENTS, at the end of the year	14	<u>9,585,854</u>	<u>19,186,014</u>



**JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

*(in thousands of tenge)*

	Notes	Charter Capital	Additional paid-in capital	Retained earnings/ (accumulated loss)	Equity attributable to the Shareholder of the Company	Non-controlling interests	Total
At 1 January 2015		<u>21,476,802</u>	<u>841,018</u>	<u>earnings/</u>	<u>32,477,073</u>	<u>691,530</u>	<u>33,168,603</u>
Total comprehensive (loss)/income for the year		-	-	(accumulated loss)	(8,337,487)	71,069	(8,266,418)
Measurement of debt component of preferred shares		-	-	(8,260)	(8,260)	-	(8,260)
Dividends	17	-	-	(140,336)	(140,336)	(106,581)	(246,917)
At 31 December 2015		<u>21,476,802</u>	<u>841,018</u>	<u>1,673,170</u>	<u>23,990,990</u>	<u>656,018</u>	<u>24,647,008</u>
Total comprehensive (loss)/income for the year		-	-	(2,813,227)	(2,813,227)	61,422	(2,751,805)
Dividends	17	-	-	-	-	(49,626)	(49,626)
At 31 December 2016		<u>21,476,802</u>	<u>841,018</u>	<u>(1,140,057)</u>	<u>21,177,763</u>	<u>667,814</u>	<u>21,845,577</u>

## 1. GENERAL INFORMATION

Joint Stock Company Kazakhstan Engineering National Company (the “Kazakhstan Engineering” or the “Company”) was established in accordance with Decree 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).

These consolidated financial statements include financial statements of the Company and its subsidiaries (together referred to as the “Group”). Information about the Group structure is presented in Note 7.

As at 31 December 2016 and 2015, the Group also had investments in associates and joint ventures

As at 31 December 2016 and 2015, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (JSC “SWF Samruk-Kazyna” or the “Shareholder”). From 15 June 2010, 100% of its shares were in trust management of Ministry of Defence of the Republic of Kazakhstan. On 23 December 2016, under the decree of the Government of the Republic of Kazakhstan, 100% of its shares were transferred for trust management to Ministry of Defence and Aerospace industry 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.

The Government, represented by JSC Sovereign Wealth Fund Samruk-Kazyna is the ultimate shareholder of the Company.

Principal activities of the companies in the Group are:

- participation in state policy on development, production, sale and liquidation of goods and equipment of defence, twofold and civil purposes;
- participation in development and implementation 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 execution of conversion programs and defence-production complex programs;
- participation in execution of state defence orders, forming and implementation of plans for forming and storing mobilization reserves;
- production of oil and gas, railway, aviation, agricultural, ship contracting equipment, production of civil goods.

In May 2015, the Company was appointed as a single operator of the state defence orders of the Republic of Kazakhstan.

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

Number of employees of the Group as at 31 December 2016 was 4,997 people (31 December 2015: 5,509 people).

### **Operating Environment**

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and the financial position of the Group is at this stage difficult to determine.

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

### **Adoption of new and revised standards**

In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Annual Improvements to IFRSs 2012-2014 Cycle

The application of new and revised standards has had no significant effect on the Group's consolidated financial statements.

### **New and revised IFRSs in issue but not yet effective**

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

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications);
- IFRS 16 Leases
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 7 – Disclosure Initiative;
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40 – Transfers of Investment Property;
- Annual Improvements to IFRSs 2014-2016 Cycle.

### **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.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant 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**

IFRS 15 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 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 or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- 1) Identify the contract with the customer;
- 2) Identify the performance obligations in the contract;
- 3) Determine the transaction price;
- 4) Allocate the transaction price to the performance obligations in the contracts;
- 5) Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity 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 in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.



In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The management is still in the process of assessing the full impact of the application of IFRS 15 on the Group's financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. The management does not intend to early apply the standard and intend to use the full retrospective method upon adoption.

### **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.

As at 31 December 2016, current liabilities of the Group exceeded its current assets by 6,193,260 thousand tenge (31 December 2015: 4,884,265 thousand tenge), which is due to the need to repay a portion of the loan to JSC Halyk Bank of Kazakhstan in August 2017. The net loss for 2016 amounted to 2,751,805 thousand tenge (2015: 8,266,418 thousand tenge).

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

- The Group comprises the largest machinery plants in Kazakhstan, which produce products and services for defence purposes for State defence order of the Republic of Kazakhstan. Kazakhstan's national defence budget is expected to grow in 2017;
- The Group expects cash inflows from the disposal of assets held for sale in accordance with its plan of privatization, and by involving strategic partners, with the purpose of increasing the effectiveness of the Group;





- The Group expects to repay its loan to JSC Halyk Bank of Kazakhstan from operating activities and cash inflows from the sale of the above mentioned assets;
- The Group is negotiating additional financing facilities with financial institutions during 2017.

### **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.

Net profit 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 parent company.

**Investment in associates and joint-ventures**

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

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

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

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

The requirements of IAS 39 Financial Instruments 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.

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 at the date of reclassification.

### **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.

<b>Group of assets</b>	<b>Useful lives</b>
Buildings and constructions	8 - 100 years
Machinery and equipment	3 - 20 years
Vehicles	3 - 10 years
Other assets	3 - 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.

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

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

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

### **Inventories**

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

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

## **Recognition of financial instruments**

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

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

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

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 used 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 rendering of services is recognized by stage of completion of contract activity at the end of the reporting date. Stage of completion measured on the proportion of contracts 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. If the financial outcome of the contract cannot be estimated reliably, the revenue is recognized 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.

### **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.

### **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 171,443 tenge per month (2015: not more than 160,230 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.

#### ***Critical judgements in applying accounting policies***

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

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

Eurocopter Kazakhstan engineering LLP, Thales Kazakhstan engineering LLP and Kazakhstan ASELSAN engineering LLP are limited liability companies whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore, there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, investments in these joint arrangements are classified as investments in joint ventures (Note 8).

#### ***Key sources of estimation uncertainty***

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

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

The 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.

#### ***Impairment of assets***

As of 31 December 2016, the Company made an assessment of impairment indicators of non-current assets in accordance with IAS 36 Impairment of Assets. Indicators were identified due to the operating losses in JSC Semey Engineering, Kazakhstan Aviation Industry LLP, JSC Semipalatinsk Machinery Construction Plant and JSC Kirov Machinery Plant. The Group management held impairment test using its best estimates. As a result of the test no impairment has been identified.

#### ***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 2016. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

## **5. SEGMENT INFORMATION**

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

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

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

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

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

	2016 г.	2015 г.
Specialised products and twofold purposes products	37,733,536	44,948,653
Services (engineering)	26,667,843	10,376,654
Civil purposes products	<u>6,929,854</u>	<u>8,191,191</u>
	<u>71,331,233</u>	<u>63,516,498</u>

The Group carries out its activity in Kazakhstan.

Inter-segment sales for 2016 amounted to 13,010,973 thousand tenge (2015: 10,680,605 thousand tenge).

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

	2016 г.	2015 г.
Specialised products and twofold purposes products	37,733,536	44,948,653
Services (engineering)	26,667,843	10,376,654
Civil purposes products:		
- Oil and gas equipment	4,577,992	5,417,822
- Railway equipment	368,545	825,325
- Other products	<u>1,983,317</u>	<u>1,948,044</u>
	<u>71,331,233</u>	<u>63,516,498</u>

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 2016, specialized products sales were mainly made to ministries and agencies of 59,105,312 thousand tenge, including some services (2015: 51,498,039 thousand tenge); oil and gas equipment sales were mainly made to JSC NC KazMunaiGas of 2,769,177 thousand tenge (2015: 3,609,752 thousand tenge); railway equipment and other products sales were mainly made to JSC NC Kazakhstan Temir Zholy of 1,301,906 thousand tenge (2015: 1,633,259 thousand tenge) (Note 31).

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

	<b>31 December 2016</b>	<b>31 декабря 2015 г.</b>
Kazakhstan	67,522,126	61,419,946
CIS countries	3,809,107	2,096,552
	<u>71,331,233</u>	<u>63,516,498</u>





## 6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construc-tion in progress	Total
<b>Initial or deemed cost:</b>						
At 1 January 2015	198,192	8,217,160	9,500,788	1,031,240	2,099,604	21,046,984
Additions	323,128	131,577	257,664	67,861	4,821,586	5,601,816
Internal movement	202	235,705	463,997	36,687	(736,591)	-
Disposals	(1,727)	(8,842)	(102,448)	(11,065)	-	(124,082)
At 31 December 2015	519,795	8,575,600	10,120,001	1,124,723	6,184,599	26,524,718
Additions	-	36,044	173,140	32,031	4,102,331	4,343,546
Internal movement	(38,649)	7,763,211	1,805,328	204,590	(9,734,480)	-
Transfer to Inventory	-	-	(286)	(220)	(7,290)	(7,796)
Transfer from Inventory	-	231	57,714	2,432	346,183	406,560
Transfer to intangible assets	-	-	-	-	(44,732)	(44,732)
Disposals	-	(58,607)	(71,009)	(7,623)	-	(137,239)
At 31 December 2016	481,146	16,316,479	12,084,888	1,355,933	846,611	31,085,057
<b>Accumulated depreciation and impairment:</b>						
At 1 January 2015	-	(1,407,035)	(3,940,058)	(423,280)	-	(5,770,373)
Depreciation charge for the year	-	(218,477)	(728,790)	(128,897)	-	(1,076,164)
Disposals	-	4,384	63,765	10,226	-	78,375
At 31 December 2015	-	(1,621,128)	(4,605,083)	(541,951)	-	(6,768,162)
Depreciation charge for the year	-	(250,876)	(764,675)	(126,921)	-	(1,142,472)
Disposals	-	11,336	63,258	6,673	-	81,267
At 31 December 2016	-	(1,860,668)	(5,306,500)	(662,199)	-	(7,829,367)
<b>Carrying amounts:</b>						
At 31 December 2016	<u>481,146</u>	<u>14,455,811</u>	<u>6,778,388</u>	<u>693,734</u>	<u>846,611</u>	<u>23,255,690</u>
At 31 December 2015	<u>519,795</u>	<u>6,954,472</u>	<u>5,514,918</u>	<u>582,772</u>	<u>6,184,599</u>	<u>19,756,556</u>

As at 31 December 2016, construction in progress includes the development of MAZ automotive engineering in the subsidiary JSC Semipalatinsk Machinery Construction Plant in the amount of 633,273 thousand tenge (31 December 2015: 556,964 thousand tenge).

The project «Aerotechnical center in Astana» was put into operation on 15 September 2016 of 8,750,651 thousand tenge, of which:

- buildings and constructions of 7,430,929 thousand tenge;
- machinery and equipment of 1,116,108 thousand tenge;
- other assets of 203,614 thousand tenge.

As at 31 December 2016, property, plant and equipment with carrying value of 194,849 thousand tenge were pledged as collateral for finance lease and bank guarantees obtained by the Group (31 December 2015: 477,809 thousand tenge).

As at 31 December 2016, carrying value of property, plant and equipment received under finance lease amounted to 992,679 thousand tenge (31 December 2015: 1,142,756 thousand tenge). This equipment serves as collateral for the obligations under finance lease.

The cost of fully depreciated property, plant and equipment as at 31 December 2016 and 2015 amounted to 1,223,946 thousand tenge and 1,032,866 thousand tenge, respectively.

As at 31 December 2016, carrying value of temporarily idle property, plant and equipment amounted to 269,484 thousand tenge (31 December 2015: 315,348 thousand tenge).



## 7. SUBSIDIARIES

Name	Principal activity	Country	Proportion of voting power 31 December	
			2016	2015
JSC 811 Motor-repair Plant KE	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	100%	100%
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	90%	90%
JSC Omega Instrument Making Plant	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Uralsk Plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
R&D center Kazakhstan Engineering LLP (former SRI Kazakhstan Engineering LLP)	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%
JV Korgau Engineering LLP	Production and supply of personal protective equipment for human respiratory system	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 subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Carrying amount of non-controlling interest	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>JSC Munaymash</b>	48%	48%	61,422	71,069	510,302	498,349

The management of the Group assessed whether or not the Group has control based on whether the Group has the practical ability to direct the relevant activities of JSC Munaymash unilaterally. In making their judgement, the management considered the Group's absolute size of holding in JSC Munaymash and relative size of and dispersion of the holdings owned by the other shareholder. After assessment, the management concluded that the Group has a significant dominant voting interest to direct the relevant activities of JSC Munaymash and therefore the Group has control over JSC Munaymash.

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

	31 December 2016	31 December 2015
Current assets	1,435,520	1,130,586
Non-current assets	1,003,043	1,287,790
Current liabilities	(769,865)	(735,861)
Non-current liabilities	<u>(605,568)</u>	<u>(643,856)</u>
Equity attributable to Shareholders of the parent company	552,828	540,3
Non-controlling interests	510,302	498,349
	<b>2016 r.</b>	<b>2015 r.</b>
Revenue	2,364,079	2,351,261
Expenses	<u>(2,236,011)</u>	<u>(2,203,077)</u>
Profit and total comprehensive income for the year	<u>128,068</u>	<u>148,184</u>
Attributable to:		
the Shareholder	66,646	77,115
the non-controlling interests	<u>61,422</u>	<u>71,069</u>
Profit and total comprehensive income for the year	<u>128,068</u>	<u>148,184</u>
Dividends declared to non-controlling interests	49,626	106,581
Dividends paid to non-controlling interests	62,229	52,998
Net cash inflow/(outflow) from:		
- operating activities	206,462	201,549
- investing activities	34,297	(57,986)
- financing activities	<u>(244,431)</u>	<u>(291,198)</u>
Net cash outflow	<u>(3,672)</u>	<u>(147,635)</u>



## 8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Country	31 December 2016		31 December 2015	
			Carrying value	Proportion of ownership interest and voting power	Carrying value	Proportion of ownership interest and voting power
<b>Associates:</b>						
JSC KAMAZ engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	734,436	25.00%	625,588	25.00%
Other			<u>25,056</u>	49.00%	<u>16,250</u>	<u>49.00%</u>
<b>Total investments in associates</b>			<u>759,492</u>		<u>641,838</u>	
<b>Joint ventures:</b>						
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	3,268,195	50.00%	2,946,249	50.00%
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters	Kazakhstan	1,774,846	50.00%	2,775,622	50.00%
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	-	50.00%	-	50.00%
<b>Total investments in joint ventures</b>			<u>5,043,041</u>		<u>5,721,871</u>	

All the above-mentioned associates and joint ventures are strategic for the Group's activity.

By the decision of Board of Directors of the Company dated 29 January 2016, assets restructuring plan for 2016 was approved, according to which it is planned to liquidate Thales Kazakhstan engineering LLP. In December 2016, by the decision of general meeting of participants of Thales Kazakhstan engineering LLP, its liquidation was approved.

As at 31 December, the movement in investments in associates and joint ventures was as follows:

	<b>2016 r.</b>	<b>2015 r.</b>
<b>Associates</b>		
<b>At 1 January</b>	641,838	661,025
Share of profit	103,962	58,195
Dividends received	(12,061)	(77,382)
Transfer from assets held for sale	25,753	-
<b>At 31 December</b>	759,492	641,838
<b>Joint ventures</b>		
<b>At 1 January</b>	5,721,871	6,057,061
Share of loss	(1,178,830)	(335,190)
Contributions to charter capital without change in ownership share	500,000	-
<b>At 31 December</b>	5,043,041	5,721,871

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 material joint ventures' financial statements prepared in accordance with IFRS.

	<b>Eurocopter Kazakhstan engineering LLP</b>		<b>Kazakhstan ASELSAN engineering LLP</b>	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current assets, including	2,112,800	3,444,289	5,563,652	4,977,155
Cash and cash equivalents	973,423	1,867,532	694,663	953,515
Non-current assets	2,409,052	2,221,329	8,239,352	7,256,124
Current liabilities	(972,160)	(61,968)	(7,535,836)	(6,656,915)
Non-current liabilities	-	(52,406)	(334,643)	(173,716)
Net assets	3,549,692	5,551,244	5,932,525	5,402,648
Group's ownership interest	50%	50%	50%	50%
Group's share of net assets	1,774,846	2,775,622	2,966,263	2,701,324
Fair value adjustment of interest free loans given	-	-	301,932	244,925
Carrying amount of the Group's interest in joint ventures	1,774,846	2,775,622	3,268,195	2,946,249



	<b>Eurocopter Kazakhstan engineering LLP</b>		<b>Kazakhstan ASELSAN engineering LLP</b>	
	2016 r.	2015 r.	2016 r.	2015 r.
Revenue	413,961	90,224	5,837,771	9,405,227
Loss and total comprehensive loss for the year	(2,001,552)	(204,924)	(356,108)	(465,456)
Share of loss in joint ventures	(1,000,776)	(102,462)	(178,054)	(232,728)

## 9. OTHER NON-CURRENT ASSETS

	<b>31 December 2016</b>	<b>31 December 2015 r</b>
Value added tax	1,358,275	249,401
Inventories for capital repair and construction of non-current as-sets	346,956	249,401
Advances paid for property, plant and equipment	54,664	880,486
Long-term financial investments	5,150	4,479
Other	44,938	18,124
	1,809,983	2,110,275

Long term value added tax arose in the following subsidiaries: JSC Tynys of 371,433 thousand tenge (2015: 382,110 thousand tenge) and Kazakhstan Aviation Industry LLP of 986,842 thousand tenge (2015: 575,675 thousand tenge). The management believes that these amounts will be recoverable in the period of more than 12 months.

## 10. INVENTORY

	<b>31 December 2016</b>	<b>31 December 2015</b>
Raw materials	9,153,889	7,681,245
Work-in-process	9,017,667	7,913,165
Finished goods	3,365,406	2,874,726
Goods for resale	163,503	97,509
	21,700,465	18,566,645
Less: allowance for obsolete inventories	(693,371)	(244,922)
Write-off to net realizable value (Note 24)	(551,269)	-
	20,455,825	18,321,723

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

	<b>2016y.</b>	<b>2015 y.</b>
Allowance for obsolete inventories at the beginning of the year	(244,922)	(313,413)
Accrued during the year (Note 24)	(492,046)	(114,718)
Written-off against previously created allowance	43,597	183,209
Allowance for obsolete inventories at the end of the year	(693,371)	(244,922)

As of 31 December 2016, in subsidiary JSC Semey Engineering was accrued allowance for obsolete inventory of 432,657 thousand tenge, and the carrying amount of work in progress was written-off to net realizable value of 551,269 thousand tenge.

## 11. TRADE ACCOUNTS RECEIVABLE

	<b>31 December 2016</b>	<b>31 December 2015</b>
Trade receivables from related parties (Note 31)	3,746,360	2,200,582
Trade receivables from third parties	947,398	1,084,751
	4,693,758	3,285,333
Less: allowance for doubtful debts from third parties	(437,847)	(259,390)
	4,255,911	3,025,943

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

	<b>2016 y.</b>	<b>2015 y.</b>
Allowance for doubtful debts at the beginning of the year	(259,390)	(257,045)
Accrued during the year	(181,111)	(171,297)
Written-off against previously created allowance	2,654	168,952
Allowance for doubtful debts at the end of the year	(437,847)	(259,390)





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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Tenge	3,826,621	2,982,320
Russian roubles	256,988	39,709
U.S. dollars	172,302	3,375
Euro	-	539
	<b>4,255,911</b>	<b>3,025,943</b>

## 12. ADVANCES PAID

	<b>31 December 2016</b>	<b>31 December 2015</b>
Current advances paid to third parties	11,037,206	8,832,868
Current advances paid to related parties (Note 31)	316,702	55,533
	<b>11,353,908</b>	<b>8,888,401</b>
Less: allowance for doubtful debts	(215,328)	(145,249)
	<b>11,138,580</b>	<b>8,743,152</b>

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

	<b>2016 y.</b>	<b>2015 y.</b>
Allowance for doubtful debts at the beginning of the year	(145,249)	(32,125)
Accrued during the year	(74,684)	(121,251)
Written-off against previously created allowance	4,605	8,127
Allowance for doubtful debts at the end of the year	<b>(215,328)</b>	<b>(145,249)</b>

**13. SHORT-TERM FINANCIAL INVESTMENTS**

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	Interest rate	Amount	Interest rate	Amount
JSC Tsesnabank	3.5%-17.0%	688,974	3.0%-15.0%	29,057,260
JSC Kazkommertsbank	13.5%-15.0%	143,111		-
JSC ATF Bank	10.0%	100,000	8.0%	502,900
JSC Halyk Bank of Ka-zakhstan	12.0%	8,200	12.0%	170,000
JSC Eurasian Bank	18.5 %	1,598	3.0-10.5%	370,162
JSC SB Sberbank	8.0% - 14.7%	463	10.8-14.7%	63,274
JSC Delta Bank		-	4.0-12.0%	344,601
		942,346		30,508,197
Less: long-term portion		(5,150)		(4,479)
		937,196		30,503,718

As at 31 December 2016 and 2015, short-term financial investments are represented by bank deposits, which mature in 3-12 months.

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

	<b>31 December 2016</b>	<b>31 December 2015</b>
Tenge	852,838	2015
U.S. dollars	81,979	29,483,079
Russian roubles	2,379	84,646
	937,196	30,503,718

**14. CASH AND CASH EQUIVALENTS**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Cash on bank accounts in tenge	8,428,328	18,017,797
Cash on bank accounts in foreign currencies	1,105,075	1,034,586
Petty cash in tenge	24,891	41,411
Cash on special bank accounts in tenge	3,560	2,975
Cash in transit in tenge	-	245
Short-term deposits	24,000	89,000
	9,585,854	19,186,014



As at 31 December 2016, short-term deposits represent deposits in JSC Tsesnabank of 24,000 thousand tenge. These deposits are denominated in tenge and placed with an original maturity of 1 to 3 months and bear an interest rate of 10% per annum.

Cash and cash equivalents are denominated in the following currencies:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Tenge	8,480,779	18,151,428
Russian roubles	567,751	364,129
U.S. dollars	536,014	662,196
Euro	1,310	8,261
	9,585,854	19,186,014

## 15. CHARTER CAPITAL

As at 31 December 2016 and 2015, authorized, issued and fully paid charter capital of the Company consists of common shares of 21,476,802 shares with a par value of 1,000 tenge each.

As at 31 December 2016 and 2015, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

In 2016, the Company did not declare and pay dividends.

## 16. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2016 and 2015, 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 loans from the Shareholder of 412,406 thousand tenge. These loans were fully repaid during 2013.

**17. NON-CONTROLLING INTEREST**

	<b>2016 r.</b>	<b>2015 r.</b>
At 1 January	656,018	691,530
Profit and total comprehensive income for the year, attributable to non-controlling interests	61,422	71,069
Dividends	(49,626)	(106,581)
At 31 December	667,814	656,018

**18. LOANS**

	<b>Coupon rate</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
Loans:			2015
JSC Halyk Bank of Kazakhstan	14.0%	28,233,234	-
JSC Kazkommertsbank	16.4% - 17.0%	675,792	750,000
Motor Sich Kazakhstan LLP	-	862	-
Eurobonds issued at a price of 100%	4.55%	-	68,002,000
		28,909,888	68,752,000
Including/(less):			
Accrued interest		1,235,299	231,689
Transaction costs		(133,490)	(197,633)
Total loans and debt securities		30,011,697	68,786,056
Less: current portion of loans and debt securities		(25,079,205)	(68,786,0
Non-current portion of loans and debt securities		4,932,492	

### **Eurobonds**

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 an annual coupon rate of 4.55%.

On 3 December 2016, the Company fully and finally paid their obligations on Eurobonds in the amount of 200 million U.S. dollars (equivalent at the repayment date 67,138,000 thousand tenge).

### **Loans**

In 2016, for the partial refinancing of Eurobonds, the Company obtained loans from JSC Halyk Bank of Kazakhstan at the interest rate of 14% per annum in the amount of 21,491,001 thousand tenge and 4,599,158 thousand tenge with maturity 8 August 2017 and 31 August 2018, respectively. The interest is paid semi-annually. The payment of principal amount is made in a single payment at the maturity date.

In October 2016, the subsidiary JSC S.M. Kirov Plant opened the credit line in JSC Halyk Bank of Kazakhstan for the amount of 744,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity of 12 months. As at 31 December 2016, the Company used 634,585 thousand tenge of the credit line. The loan is guaranteed by the Company. Accrued interest and principle are paid monthly.

In addition, in October 2016, the subsidiary JSC Uralsk Plant Zenith opened credit line in JSC Halyk Bank of Kazakhstan for the amount of 900,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity of 12 months. As at 31 December 2016, the Company used 875,000 thousand tenge of the credit line. Loan is guaranteed by the Company. Accrued interest and principle are paid monthly.

In November 2016, the subsidiary JSC Tynys opened the credit line in JSC Halyk Bank of Kazakhstan of 1,000,000 thousand tenge for replenishment of working capital at the interest rate of 14% per annum and maturity till 21 November 2019. As at 31 December 2016, the Company used 500,000 thousand tenge of the credit line. According to the agreement, the principal amount is paid semi-annually. Accrued interest is paid monthly.

At the end of 2016, in accordance with the credit line agreement concluded with JSC Kazkommertsbank, the subsidiary JSC Petropavlovsk Heavy Machinery Building Plant entered into short-term loan agreement of 675,792 thousand tenge for replenishment of working capital at the interest rate of 16.4% and 17.0% per annum and maturity of twelve months. The loans are guaranteed by the Company. Accrued interest is paid monthly. Principal amount is paid monthly after 3 months from the date of loan receipt.

As of 31 December 2016, the Group complied with all covenants of credit agreements.

**19. TRADE ACCOUNTS PAYABLES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Accounts payable to suppliers and contractors	7,429,152	2,245,179
Accounts payable to related parties (Note 31)	1,019,874	1,003,798
	<b>8,449,026</b>	<b>3,248,977</b>

Trade accounts payable are denominated in the following currencies:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Tenge	3,130,292	2,389,925
Russian roubles	3,081,913	213,957
U.S. dollars	1,946,576	544,017
Euro	290,245	101,078
	<b>8,449,026</b>	<b>3,248,977</b>

**20. OTHER TAXES PAYABLE**

	<b>31 December 2016</b>	<b>31 December 2015</b>
VAT payable	2,114,274	1,957,941
Pension and social contributions	237,341	174,848
Personal income tax	185,258	131,568
Social tax	111,018	78,951
<b>Other taxes</b>	<b>1,764</b>	<b>6,996</b>
	<b>2,649,655</b>	<b>2,350,304</b>

**21. OTHER CURRENT LIABILITIES**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Provisions	1,333,835	950,767
Advances received from third parties	1,698,186	616,425
Dividends payable to third parties	300,316	283,342
<b>Salary payable</b>	<b>150,157</b>	<b>173,397</b>
<b>Other payables</b>	<b>558,975</b>	<b>766,070</b>
	<b>4,041,469</b>	<b>2,790,001</b>



Movement in provisions is presented as follows:

	<b>Warranty repair</b>	<b>Unused vacation and other remunerations to employees</b>	<b>Other accrued liabilities</b>	<b>Total</b>
<b>At 1 January 2015</b>	24,102	366,719	22,524	413,345
<b>Recognised in:</b>				
non-current liabilities	13,004	25,096	-	38,100
current liabilities	11,098	341,623	22,524	375,245
<b>Accrued for the year</b>	258,412	931,632	17,825	1,207,869
Repaid/used	(619)	(622,384)	(20,600)	(643,603)
<b>At 31 December 2015</b>	281,895	675,967	19,749	977,611
<b>Recognised in:</b>				
non-current liabilities	3,429	23,415	-	26,844
current liabilities	278,466	652,552	19,749	950,767
<b>Accrued for the year</b>	138,747	1,051,696	14,602	1,205,045
Repaid/used	(70,131)	(742,359)	(12,982)	(825,472)
<b>At 31 December 2016</b>	350,511	985,304	21,369	1,357,184
<b>Recognised in:</b>				
non-current liabilities	665	22,684	-	23,349
current liabilities	349,846	962,620	21,369	1,333,835

Other current liabilities are mainly denominated in tenge.

## 22. REVENUE

	<b>2016 y.</b>	<b>2015 y.</b>
Revenue from sale of purchased goods and services	42,568,452	36,290,079
Revenue from sale of manufactured goods, services	28,762,781	27,226,419
	71,331,233	63,516,498

In 2016, revenue from operations with related parties amounted to 65,895,689 thousand tenge (2015: 58,592,193 thousand tenge), which represents 92% of total revenue (2015: 92%) (Note 31).

**23. COST OF SALES**

	<b>2016 y.</b>	<b>2015 y.</b>
Cost of purchased goods and services	40,102,955	35,273,957
Cost of manufactured goods, services	24,968,254	22,420,340
	65,071,209	57,694,297

For the year ended 31 December, cost of manufactured goods, services is presented as follows:

	<b>2016 y.</b>	<b>2015 y.</b>
Raw materials	13,930,642	14,042,202
Payroll and related taxes	6,290,483	5,815,023
Subcontractors' services	3,807,670	3,530,162
Depreciation and amortisation	958,702	911,109
Utilities	594,842	439,723
Provision for unused vacation and other remunerations	467,828	431,649
Accrual of provision for warranty repair (Note 21)	133,912	258,412
Repair and maintenance	25,207	136,433
Other	354,150	256,583
	26,563,436	25,821,296
Work-in-process at the beginning of the year	7,913,165	5,190,215
Work-in-process at the end of the year (Note 10)	9,017,667	7,913,165
Change in work-in-process	(1,104,502)	(2,722,950)
Finished goods at the beginning of the year	2,874,726	2,196,720
Finished goods at the end of the year (Note 10)	3,365,406	2,874,726
Change in finished goods	(490,680)	(678,006)
	24,968,254	22,420,340





## 24. ADMINISTRATIVE EXPENSES

	<b>2016 y.</b>	<b>2015 y.</b>
Payroll and related taxes	2,230,745	1,835,235
Write-off of inventory to net realizable value (Note 10)	551,269	-
Allowance for obsolete inventories (Note 10)	492,046	114,718
Third party services	391,179	365,168
Provision for unused vacation and other remunerations	384,533	488,747
Business trips and representative expenses	258,480	141,305
Allowance for doubtful debts	255,795	113,094
Rent expenses	204,801	191,564
Depreciation and amortisation	219,180	204,779
Taxes	158,786	96,187
Other	1,222,674	988,947
	<b>6,369,488</b>	<b>4,539,744</b>

## 25. FINANCE INCOME

	<b>2016 y.</b>	<b>2015 y.</b>
Interest income on short-term deposits and current accounts	2,719,101	1,985,408
Other finance income	189,676	107,513
Interest income on loans given	169	363,098
Amortisation of fair value adjustment on loans given	-	19,067
Gain arising on financial assets designated as at fair value through profit or loss	-	3,618,164
	<b>2,908,946</b>	<b>6,093,250</b>

## 26. FINANCE COSTS

	<b>2016 y.</b>	<b>2015 y.</b>
Coupon on bonds issued and interest on loans	4,074,760	2,304,410
Amortisation of discount on bonds issued	198,043	312,915
Dividends on preferred shares	52,425	52,290
Interest on finance lease	34,435	40,770
Other finance costs	228,992	71,954
	<b>4,588,565</b>	<b>2,782,339</b>

**27. TAXATION**

	<b>2016 y.</b>	<b>2015 y.</b>
Current income tax expense	300,676	327,672
Deferred tax benefit	(538,931)	(1,857,911)
Income tax benefit	(238,255)	(1,530,239)

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

	<b>2016 y.</b>	<b>2015 y.</b>
Loss before income tax from continuing operations	(2,990,060)	(9,796,657)
Theoretical income tax at official tax rate of 20%	(598,012)	(1,959,331)
Tax effect of permanent differences	(239,058)	373,693
Tax effect of non-deductible expenses	244,749	-
Share of loss in associates and joint ventures, not taxable	220,681	55,399
Other permanent differences	133,385	-
	(238,255)	(1,530,239)

The difference between IFRS and tax code of the Republic of Kazakhstan causes temporary differences between carrying amount of assets and liabilities and its base for corporate income tax calculation. Tax effect of changes of temporary differences is presented below and calculated using applicable tax rate:

	<b>At 1 January 2016</b>	<b>Recognised in profit and loss</b>	<b>At 31 December</b>
Tax losses carried forward	2,834,320	300,680	2016
Other liabilities	148,846	56,218	205,064
Provisions	96,763	217,909	314,672
Trade accounts receivable	60,423	16,559	76,982
Taxes payable	16,709	9,024	25,733
Loans given	45,977	-	45,977
Inventory	(11,636)	17,856	6,220
Property, plant and equipment	(1,271,568)	(79,315)	(1,350,883)
	1,919,834	538,931	2,458,765



	<b>At 1 January 2015</b>	<b>Recognised in profit and loss</b>	<b>At 31 December</b>
Tax losses carried forward	555,563	2,278,757	2015
Other liabilities	89,173	59,673	148,846
Provisions	67,503	29,260	96,763
Trade accounts receivable	49,810	10,613	60,423
Taxes payable	20,252	(3,543)	16,709
Loans given	4,109	41,868	45,977
Inventory	-	(11,636)	(11,636)
Property, plant and equipment	(724,487)	(547,081)	(1,271,568)
	61,923	1,857,911	1,919,834

## **28. 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 the Republic of 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 2016.

### **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 2016 and 2015, the Group has number of commitments for acquisition of property, plant and equipment of 127,654 thousand tenge and 3,236,089 thousand tenge, respectively.

## **29. 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 lease, including embedded derivative and debt component of preferred shares, after deducting 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 15, 16 and 17).



	<b>31 December 2016</b>	<b>31 Decem-ber 2015</b>
Borrowed funds	30,863,393	69,766,214
Cash and cash equivalents, short-term investments and restricted cash	(10,569,607)	(49,953,554)
Net debt	20,293	19,812,660
Equity	22,091,801	24,647,008
Net debt to equity ratio	91.86%	80.39%

### **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 analyses 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 rubles, 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.

The Group maintains a portion of its cash and cash equivalents and other financial assets on deposits in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

**Exposure to currency risk**

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

	Denominated in U.S. dollars		Denominated in Russian roubles		Denominated in Euro	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Financial as-sets:</b>						
Cash and cash equivalents	536,014	662,196	567,751	364,129	1,310	8,261
Short-term financial investments	81,979	29,483,079	2,379	84,646	-	-
Trade and other receivables	172,454	37,033	318,710	99,979	-	539
<b>Financial liabilities:</b>						
Loans	-	(68,036,056)	-	-	-	-
Trade accounts payable	(1,946,576)	(544,017)	(3,081,913)	(213,957)	(290,245)	(101,078)
<b>Net effect</b>	<b>(1,156,129)</b>	<b>(38,397,765)</b>	<b>(2,193,073)</b>	<b>334,797</b>	<b>(288,935)</b>	<b>(92,278)</b>



In 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. During 2016, tenge has strengthened significantly against the dollar. The Company has repaid liabilities on Eurobonds at the end of 2016. As the result, the Group recognized a net foreign exchange gain in the amount of 1,068,008 thousand tenge at the end of 2016 (2015: foreign exchange loss in the amount of 13,811,348 thousand tenge).

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

	<b>2016 y.</b>	<b>2015 y.</b>
U.S. dollars	341.76	221.73
Euro	378.32	245.80
Russian roubles	5.12	3.61

Exchange rates as of 31 December:

	<b>31 December 2016</b>	<b>31 December 2015</b>
U.S. dollars	333.29	339.47
Euro	352.42	371.31
Russian roubles	5.43	4.65

The following table details the Group's sensitivity to 13.00% (2015: 60.00%) increase and decrease in the value of tenge with respect to U.S dollars, 23.00% (2015: 40.00%) with respect to Russian roubles and 15.00% (2014: 60.00%) with respect to Euro. 13.00%, 23.00% and 15.00% 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) open positions with external contractors as well as b) payables/receivables of intragroup transactions with foreign contractors of the Group, if the transaction denominated in currency other than the currency of the lender or the borrower.

The following table shows changes in financial assets and liabilities when tenge weakens by 13.00%, 23.00% and 15.00% 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 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
<b>Profit or loss</b>	(150,297)	(23,038,659)	(504,407)	133,919	(43,340)	(55,367)

### 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 11), 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 2016	31 December 2015
Within the country	3,826,621	2015
Outside the country	429,290	43,623
	4,255,911	3,025,943

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 2016 and 2015, distribution of trade receivables by ageing was as follows:

По состоянию на 31 декабря 2016 и 2015 гг. распределение торговой дебиторской задолженности по срокам давности было следующим:

	<b>31 December 2016</b>	<b>31 December 2015</b>
Not overdue	4,255,911	2015
Overdue by 3-6 months	-	-
Overdue by 6-12 months	-	-
Overdue by more than 12 months	437,847	259,390
	<b>4,693,758</b>	<b>3,285,333</b>

With respect to credit risk associated with cash and cash equivalents and short-term financial investments, the Group's risk of default of credit institutions in which funds are deposited, with a maximum exposure equal to the current value of these instruments, is considered to be insignificant. As at 31 December 2016, the Group places cash and cash equivalents in the largest second-tier banks of Republic of Kazakhstan: 47% of the Group's cash and cash equivalents in the amount of 3,956,476 thousand tenge, including short-term deposits in the amount of 688,974 thousand tenge are placed at JSC Tsesnabank (a credit rating B+/Negative/B, kzBBB- according to Standard&Poor's rating), 35% of cash and cash equivalents in the amount of 2,999,891 thousand tenge are placed at JSC Eurasian Bank (a credit rating B/Stable/B, kzBB according to Standard&Poor's rating), 4% of cash and cash equivalents in the amount of 327,359 thousand tenge are placed at JSC Halyk Bank of Kazakhstan (a credit rating BB/Negative/B, kzA according to Standard&Poor's rating).

The Group analyses liquidity, credit and currency risks when placing short-term financial investments in second tier banks. The Group controls credit risk through diversification of cash and cash equivalents in second tier banks.

#### **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. See also Note 3.

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

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
<b>2016 y.</b>						
<b>Non-interest bearing:</b>						
Trade accounts payable	-	8,449,026	-	-	-	8,449,026
Other liabilities	-	859,290	-	26,111	229,885	1,115,286
<b>Interest bearing:</b>						
Loans	14%-17%	4,040,715	23,816,552	5,599,520	-	33,456,787
Finance lease	5%	78,941	77,339	539,678	-	695,958

	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
<b>2015 y.</b>						
<b>Non-interest bearing:</b>						
Trade accounts payable	-	3,248,977	-	-	-	3,248,977
Other liabilities	-	173,397	1,048,949	20,841	229,885	1,473,072
<b>Interest bearing:</b>						
Loans	8%	30,000	765,000	-	-	795,000
Debt securities issued	4.55%-5%	231,689	70,661,856	-	-	70,893,545
Finance lease	5%	82,151	80,544	696,870	-	859,565

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.

	<b>Interest rate</b>	<b>1 month – 1 year</b>	<b>1-5 years</b>	<b>Unknown period</b>	<b>Total</b>
<b>2016</b>					
<b>Interest bearing:</b>					
Short-term financial investments	12.9%	1,058,094	5,814	-	1,063,908
Short-term deposits	10.4%	24,416	-	-	24,416
<b>Non-interest bearing:</b>					
Cash and cash equivalents	-	9,561,854	-	-	9,561,854
Restricted cash	-	46,557	-	-	46,557
Trade accounts receivable	-	4,255,911	-	437,847	4,693,758
Other assets	-	357,598	44,923	217,325	619,846

	<b>Interest rate</b>	<b>1 month – 1 year</b>	<b>1-5 years</b>	<b>Unknown period</b>	<b>Total</b>
<b>2015</b>					
<b>Interest bearing:</b>					
Short-term financial investments	8.97%	33,239,723	-	-	33,239,723
Short-term deposits	4.6%-9.2%	90,535	-	-	90,535
<b>Non-interest bearing:</b>					
Cash and cash equivalents	-	19,097,014	-	-	19,097,014
Restricted cash	-	263,822	-	-	263,822
Trade accounts receivable	-	3,025,943	-	259,390	3,285,333
Other assets	-	368,585	20,742	-	389,327

### 30. FAIR VALUE

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

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

#### **Cash and cash equivalents**

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

#### **Short-term financial investments**

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

#### **Trade and other accounts receivable and payable**

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

#### **Loans**

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

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.

As of 31 December 2016 and 31 December 2015, the carrying amount of assets and liabilities of the Group were equal to its fair value.



## Fair value hierarchy as at 31 December 2016

<b>At 31 December 2016 y.</b>				
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Short-term financial investments	-	937,196	-	937,196
<b>Non-financial assets</b>				
Assets classified as held for sale	-	-	435,263	435,263
<b>Financial liabilities</b>				
Loans	-	30,011,697	-	30,011,697
Finance lease obligations	-	621,811	-	621,811

<b>At 31 December 2015 y.</b>				
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Short-term financial investments	-	30,503,718	-	30,503,718
<b>Non-financial assets</b>				
Assets classified as held for sale	-	-	592,755	592,755
<b>Financial liabilities</b>				
Loans	-	750,000	-	750,000
Debt securities issued	66,464,883	-	-	66,464,883
Finance lease obligations	-	750,273	-	750,273

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.

### 31. 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, also ministries and agencies.

#### Trade accounts receivable

	31 December 2016	31 December 2015
Ministries and agencies	1,900,346	751,454
JSC NC KazMunaiGas	582,090	320,929
JSC Mangystaumunaigaz	358,670	303,441
Kazakhstan Paramaunt Engineering LLP	246,835	-
JSC NC Kazakhstan Temir Zholy	218,670	603,327
JSC ZIKSTO	212,780	-
JSC Locomotive Kurastyru Zauyty	144,093	192,017
Other	82,876	29,414
	3,746,360	2,200,582
Less: allowance for doubtful accounts of related parties	(68,810)	-
	3,677,550	2,200,582

#### Dividends receivable

	31 December 2016	31 December 2015
JSC ZIKSTO	10,755	15,755
MBM-Kirovets LLP	-	41,365
	10,755	57,120



## Trade accounts payable

	<b>31 December 2016</b>	<b>31 December 2015</b>
Elkam LLC	427,663	323,095
Ministries and agencies	224,021	103,000
Eurocopter Kazakhstan engineering LLP	153,569	72,135
JSC KAMAZ-Engineering	128,718	92,095
Kazakhstan ASELSAN engineering LLP	25,276	145,276
JSC Aviarepair plant No.405	16,328	96,526
JSC Samruk Energy	7,724	8,672
JSC NC Kazakhstan Temir Zholy	90	10,194
CJSC Ulan	-	80,620
Samruk-Kazyna Corporate University LLP	-	55,289
Other	36,485	16,896
	<b>1,019,874</b>	<b>1,003,798</b>

## Advances paid

	<b>31 December 2016</b>	<b>31 December 2015</b>
Kazakhstan ASELSAN engineering LLP	224,794	30,034
JSC NC KazMunaiGas	10,111	10,921
JSC Samruk Energy	4,602	231
JSC Kazpost	4,242	2,716
JSC NC Kazakhstan Temir Zholy	3,031	7,967
Other	69,922	3,664
	<b>316,702</b>	<b>55,533</b>

## Advances received

	<b>31 December 2016</b>	<b>31 December 2015</b>
Ministries and agencies	14,971,308	9,705,349
JSC NC KazMunaiGas	140,198	31,979
Other	30,800	34,588
	<b>15,142,306</b>	<b>9,771,916</b>

**Sales of goods and services**

	<b>31 December 2016</b>	<b>31 December 2015</b>
Ministries and agencies	59,105,312	51,498,039
JSC NC KazMunaiGas	2,769,177	4,240,845
JSC NC Kazakhstan Temir Zholy	1,301,906	1,633,259
JSC Kazakhstan Paramaunt Engineering	826,398	-
JSC Mangystaumunaigaz	544,659	457,395
JSC KAMAZ-Engineering	400,652	21,038
JSC ZIKSTO	291,270	714
JSC NAC Kazatomprom	274,964	70,413
JSC Aviarepair plant #405	79,148	5,050
CJSC Elkam-Neftemash	95,996	63,254
Tulpar Munai Service LLP	-	153,793
Argymak TransService LLP	-	107,781
Other	206,207	340,612
	65,895,689	58,592,193

**Purchases of goods and services**

	<b>2016 y.</b>	<b>2015 y.</b>
Kazakhstan ASEL SAN engineering LLP	2,915,202	8,119,505
JSC Kamaz Engineering	2,848,946	5,306,673
JSC Aviarepair plant No.405	2,735,416	331,305
Elkam LLC	1,111,826	1,181,784
Samruk-Kazyna Corporate University LLP	355,177	270,062
Eurocopter Kazakhstan engineering LLP	162,812	64,406
Ministry and agencies	135,026	190,924
JSC NC KazMunaiGas	88,207	87,345
JSC Samruk Energy	65,167	68,905
JSC Kazkommertsbank	48,950	8,370
JSC NC Kazakshtan Temir Zholy	40,642	307,849
Other	188,044	113,164
	10,695,415	16,050,292





## Finance income

	2016 y.	2015 y.
Kazakhstan Paramount engineering LLP	-	3,981,262
Kazakhstan ASELSAN engineering LLP	-	19,067
	-	4,000,329

## Finance costs

	2016 r.	2015 r.
JSC Samruk-Energy	288,177	248,673
	288,177	248,673

## Remuneration of key management personnel

For the years ended 31 December 2016 and 2015, compensation to key management personnel amounted to 107,860 thousand tenge and 75,078 thousand tenge, respectively.

## 32. SUBSEQUENT EVENTS

On 2 February 2017, the Company concluded an agreement on sale of 100% shares in JSC 832 Motor-repair Plant of 70,830 thousand tenge. According to the agreement, the buyer made an advance payment of 49,499 thousand tenge on 27 January 2017 as a guarantee fee.

## 33. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group were approved and authorized for issue by management on 3 March 2017.