

**JSC KAZAKHSTAN  
ENGINEERING NATIONAL  
COMPANY  
AND ITS SUBSIDIARIES**

**Consolidated financial statements**  
for the year ended 31 December 2015

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of JSC Kazakhstan Engineering National Company (the "Company") and its subsidiaries (the "Group") as at 31 December 2015, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2015 were approved and authorized for issue by management of JSC Kazakhstan Engineering National Company on 5 March 2016.

Signed on behalf of management of the Group

  
\_\_\_\_\_  
**Idrisov E.S.**  
Chairman

5 March 2016  
Astana, the Republic of  
Kazakhstan



  
\_\_\_\_\_  
**Mynsharipova S.N.**  
Deputy Chairman

  
\_\_\_\_\_  
**Alibova Zh.A.**  
Chief accountant

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazakhstan Engineering National Company and its subsidiaries (collectively – the “Group”), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

### Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



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



Daulat Kuatbekov  
Qualified auditor  
Qualification certificate  
No.MF-0000523,  
of 15 February 2002,  
Republic of Kazakhstan

**DELOITTE, LLP**

Deloitte, LLP  
Audit license for Republic of Kazakhstan No.0000015,  
type MFU-2, issued by the Ministry of Finance  
of the Republic of Kazakhstan  
dated 13 September 2006



Nurlan Bekenov  
General Director  
Deloitte, LLP

5 March 2016  
Almaty, the Republic of Kazakhstan

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

(in thousands of tenge)

	Notes	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Property, plant and equipment	7	19,756,556	15,276,611
Intangible assets		448,042	514,478
Investments in associates and joint ventures	9	6,363,709	6,718,086
Other non-current assets	10	2,110,275	1,243,886
Deferred tax assets	31	2,880,589	1,078,268
<b>Total non-current assets</b>		<b>31,559,171</b>	<b>24,831,329</b>
<b>CURRENT ASSETS:</b>			
Inventory	11	18,321,723	13,766,488
Trade accounts receivable	12	3,025,943	4,446,347
Income tax prepaid		1,017,776	602,075
Other taxes recoverable		429,428	1,070,243
Restricted cash		263,822	531,265
Other current assets	13	9,178,855	4,066,098
Short-term financial investments	14	30,503,718	28,795,181
Cash and cash equivalents	15	19,186,014	10,451,088
		81,927,279	63,728,785
Assets classified as held for sale	16	592,755	593,458
<b>Total current assets</b>		<b>82,520,034</b>	<b>64,322,243</b>
<b>TOTAL ASSETS</b>		<b>114,079,205</b>	<b>89,153,572</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Charter capital	17	21,476,802	21,476,802
Additional paid-in-capital	18	841,018	841,018
Retained earnings		1,673,170	10,159,253
<b>Equity attributable to Parent of the Company</b>		<b>23,990,990</b>	<b>32,477,073</b>
Non-controlling interests	19	656,018	691,530
<b>Total equity</b>		<b>24,647,008</b>	<b>33,168,603</b>
<b>NON-CURRENT LIABILITIES:</b>			
Debt securities	20	-	36,255,626
Finance lease obligations		623,235	751,463
Employee benefits obligations		37,393	51,980
Other non-current liabilities		176,630	120,273
Deferred tax liabilities	31	960,755	1,016,345
Debt component of preferred shares		229,885	221,625
<b>Total non-current liabilities</b>		<b>2,027,898</b>	<b>38,417,312</b>

**JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015 (CONTINUED)**  
*(in thousands of tenge)*

	Notes	31 December 2015	31 December 2014
<b>CURRENT LIABILITIES:</b>			
Loans	20	750,000	-
Current portion of debt securities	20	68,036,056	10,409,721
Current portion of finance lease obligations		127,038	127,271
Trade accounts payable	21	3,248,977	2,429,652
Employee benefits obligation		11,582	10,286
Income tax payable		318,425	633,606
Other taxes payable	22	2,350,304	1,567,875
Advances received from related parties	35	9,771,916	487,740
Other current liabilities	23	2,790,001	1,901,506
<b>Total current liabilities</b>		<b>87,404,299</b>	<b>17,567,657</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>114,079,205</b>	<b>89,153,572</b>

Signed on behalf of management of the Group

  
Idrisov E.S.  
Chairman



  
Mynsharipova S.N.  
Deputy Chairman

  
Alibova Zh.A.  
Chief accountant

5 March 2016  
Astana, the Republic of  
Kazakhstan

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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of tenge)

	Notes	2015	2014
Revenue	24	63,516,498	38,488,086
Cost of sales	25	<u>(57,694,297)</u>	<u>(28,697,195)</u>
Gross profit		5,822,201	9,790,891
Administrative expenses	26	(4,539,744)	(4,405,877)
Selling expenses	27	(854,918)	(1,047,964)
Other income/(expenses)		553,236	(163,524)
Foreign exchange loss	28	(13,811,348)	(1,645,870)
Share of loss in associates and joint ventures	9	(276,995)	(68,781)
Finance income	29	6,093,250	1,863,522
Finance costs	30	<u>(2,782,339)</u>	<u>(2,457,483)</u>
(Loss)/profit before tax		(9,796,657)	1,864,914
Income tax benefit/(expense)	31	<u>1,530,239</u>	<u>(947,516)</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b>(8,266,418)</b>	<b>917,398</b>
Attributable to:			
Parent of the Company		(8,337,487)	816,380
Non-controlling interests		71,069	101,018
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation		-	(1,260)
Other comprehensive loss for the year, net of income tax		-	(1,260)
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<b><u>(8,266,418)</u></b>	<b><u>916,138</u></b>
Attributable to:			
Parent of the Company		(8,337,487)	815,191
Non-controlling interests	19	<u>71,069</u>	<u>100,947</u>
		<b><u>(8,266,418)</u></b>	<b><u>916,138</u></b>

Signed on behalf of management of the Group

**Idrissov E.S.**  
Chairman

5 March 2016  
Astana, the Republic of  
Kazakhstan



**Mysharipova S.N.**  
Deputy Chairman

**Alibova Zh.A.**  
Chief accountant

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



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of tenge)

	Notes	2015	2014
<b>OPERATING ACTIVITY:</b>			
(Loss)/profit before income tax		(9,796,657)	1,864,914
Adjustments for:			
Amortisation and depreciation		1,135,361	990,630
Allowance for doubtful accounts		113,094	346,821
Accrual of allowance for obsolete inventories	26	114,718	41,735
Loss from property, plant and equipment and intangible assets disposal		10,152	27,804
Foreign exchange loss		13,811,348	1,645,870
Share of loss in associates and joint ventures	9	276,995	68,781
Accrual/(reversal) of provision for warranty repair	25	258,412	(50,151)
Unused vacation provision and other remunerations	25, 26, 27	931,632	968,787
Other expenses		-	225,355
Other provisions		5,776	50,224
Finance income	29	(6,093,250)	(1,863,522)
Finance costs	30	2,782,339	2,457,483
Cash flows from operating activity before changes in working capital		3,549,920	6,774,731
Changes in working capital:			
Change in inventory		(5,311,868)	(187,481)
Change in trade accounts receivable		1,240,536	(2,169,998)
Change in value added tax and other taxes recoverable		(756,136)	(80,541)
Change in other assets		(4,090,948)	(538,825)
Change in trade accounts payable		(128,598)	(1,131,161)
Change in other taxes payable		1,238,465	696,789
Change in advances received from related parties and other liabilities		8,513,437	(1,826,349)
Cash generated by operating activity		4,254,808	1,537,165
Interests paid		(2,845,382)	(2,179,012)
Income tax paid		(619,388)	(724,927)
Net cash generated by/(used in) operating activity		790,038	(1,366,774)
<b>INVESTING ACTIVITY:</b>			
Acquisition of property, plant and equipment and advances paid for non-current assets		(4,736,838)	(2,696,902)
Acquisition of intangible assets		(2,171)	(835)
Loans given to a related party		(6,670,200)	(85,911)
Repayment of loans given		11,418,703	1,744,795
Dividends received		81,783	385,346
Proceeds from disposal of property, plant and equipment		21,880	24,474
Acquisition of subsidiary less cash and cash equivalents acquired		(771)	-
Contribution to charter capital of joint venture	9	-	(3,000,000)
Interest received		1,411,688	1,536,437
Placement of short-term investments		(46,313,457)	(66,953,679)
Maturing of short-term investments		62,433,524	61,000,439
Net cash generated by/(used in) investing activity		17,644,141	(8,045,836)

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

	Notes	2015	2014
<b>FINANCING ACTIVITY:</b>			
Contribution to charter capital	17	-	9,375,000
Redemption of debt securities	20	(10,384,000)	-
Loans received		845,641	100
Loans repaid		(95,641)	(100)
Finance lease repaid		(128,230)	(136,652)
Dividends paid		(217,815)	(693,637)
Net cash (used in)/generated by financing activity		(9,980,045)	8,544,711
CHANGE IN CASH AND CASH EQUIVALENTS, net		8,454,134	(867,899)
CASH AND CASH EQUIVALENTS, at the beginning of the year	15	10,451,088	10,758,902
Effects of exchange rate changes on the balance of cash held in foreign currencies		280,792	560,085
CASH AND CASH EQUIVALENTS, at the end of the year	15	19,186,014	10,451,088

Signed on behalf of management of the Group

Idrissov E.S.  
Chairman



Муншарипова С.Н.  
Deputy Chairman

*[Handwritten signature]*

Алибова Ж.А.  
Chief accountant

*[Handwritten signature]*

5 March 2016  
Astana, the Republic of  
Kazakhstan

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

**JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in thousands of tenge)**

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total
At 1 January 2014		12,101,802	841,018	10,005,198	22,948,018	631,934	23,579,952
Profit for the year		-	-	816,380	816,380	101,018	917,398
Other comprehensive loss for the year		-	-	(1,189)	(1,189)	(71)	(1,260)
Total comprehensive income for the year		-	-	815,191	815,191	100,947	916,138
Contribution to charter capital	17	9,375,000	-	-	9,375,000	-	9,375,000
Measurement of debt component of preferred shares		-	-	(8,850)	(8,850)	-	(8,850)
Dividends	17, 19	-	-	(652,286)	(652,286)	(41,351)	(693,637)
At 31 December 2014		21,476,802	841,018	10,159,253	32,477,073	691,530	33,168,603
(Loss)/profit & total comprehensive (loss)/income for the year		-	-	(8,337,487)	(8,337,487)	71,069	(8,266,418)
Measurement of debt component of preferred shares		-	-	(8,260)	(8,260)	-	(8,260)
Dividends	17, 19	-	-	(140,336)	(140,336)	(106,581)	(246,917)
At 31 December 2015		21,476,802	841,018	1,673,170	23,990,990	656,018	24,647,008

Signed on behalf of management of the Group

**Idrisov E.S.**  
Chairman

**Mynsharipova S.N.**  
Deputy Chairman

**Atibova Zh.A.**  
Chief accountant

5 March 2016  
Astana, the Republic of  
Kazakhstan



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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) *(in thousands of tenge)*

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### 1. GENERAL INFORMATION

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

As at 31 December 2015 and 2014, the sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (the “Shareholder”). On 15 June 2010, 100% of its shares were transferred for asset management to the Ministry of Defence of the Republic of Kazakhstan. As such, the transfer of shares to trust management did not result in transfer of ownership rights and control to Ministry of Defence of the Republic of Kazakhstan.

Principal activity of the Company and its subsidiaries are:

- participation in state policy on development, production, sale and liquidation of goods and equipment of defence, civil and twofold purposes;
- participation in development and execution 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 execution 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. The Company started to generate revenue from this new scheme of the state defence order in July 2015.

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 8.

As at 31 December 2015 and 2014, the Group also had investments in associates and joint ventures (Note 9).

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

Number of employees of the Group as at 31 December 2015 was 5,509 people (31 December 2014: 5,390 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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

The Group has not applied any new or revised standards in the current year.

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

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

	Effective for reporting periods starting on and after
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019
Amendments to IAS 1 <i>Disclosure Initiative</i>	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 – <i>Investment Entities: Applying the Consolidation Exception</i>	Date will be determined by IASB <sup>1</sup>
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016

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

#### *IFRS 9 Financial Instruments*

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

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

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

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

<sup>1</sup> Improvements were issued in September 2014 and were assumed to be effective for annual periods beginning on or after 1 January 2016. In December 2015, IASB delayed the effective date on uncertain period as research project on equity method will be finished.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

(in thousands of tenge)

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

The five steps in the model are as follows:

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

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

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

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

### *IFRS 16 Leases*

IFRS 16 Leases brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16 a lessee recognises a right-of-use asset and the lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or if that cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

The management of the Group anticipates that the application of IFRS 16 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detailed review.

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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) *(in thousands of tenge)*

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### 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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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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 2015, current liabilities of the Group exceeded its current assets by 4,884,265 thousand tenge (31 December 2014: current assets of the Group exceeded its current liabilities by 46,754,586 thousand tenge). The Group's Eurobonds payable of 68,036,056 thousand tenge are due on 3 December 2016.

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, which is expected to grow in 2016;
- The Company developed the plan for cash accumulation to repay the debt securities issued. As at 5 March 2016, the Group accumulated 125,754 thousand US dollars, which have been placed as bank deposits at the interest rate of 6%-7%;
- The Group also expects cash inflows from the privatisation plan by disposing of assets classified as held for sale (Note 16);
- The Group is going to obtain refinancing from financial institutions or related parties to repay residual amount of Eurobonds.

### 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.



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

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

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

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

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

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

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

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

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

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures a financial asset on initial recognition at fair value at that date. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) *(in thousands of tenge)*

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determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

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

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

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

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

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

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

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

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

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

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

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost of construction includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

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the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

### Intangible assets

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

### 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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### **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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### Impairment of financial assets

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

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

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

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

### Financial liabilities and equity instruments

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

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

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

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

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

### Trade and other accounts payable

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

### Loans and borrowings

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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### **Revenue recognition**

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

### ***Sale of goods***

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

### ***Rendering of services***

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

### ***Construction contracts***

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

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

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

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

### **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 (2014: not more than 149,745 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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### *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.



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### 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 9).

#### **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*

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

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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### *Taxation*

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

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

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at 31 December 2015. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

## 5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

For the purpose of better presentation of information and understandability of the financial statements, the Group reclassified certain items in the consolidated statement of financial position. Accordingly, the comparative amounts as at 31 December 2014 have been reclassified.

### *Effect on the consolidated statement of financial position*

	As previously reported	Reclassifications	As reclassified
<b>At 31 December 2014</b>			
<b>Non-current assets</b>			
Investment in joint ventures	6,057,061	(6,057,061)	-
Investments in associates	661,025	(661,025)	-
Investments in associates and joint ventures	-	6,718,086	6,718,086
<b>Total non-current assets</b>	<b>24,831,329</b>	<b>-</b>	<b>24,831,329</b>
<b>Current liabilities</b>			
Other current liabilities	2,389,246	(487,740)	1,901,506
Advances received from related parties	-	487,740	487,740
<b>Total current liabilities</b>	<b>17,567,657</b>	<b>-</b>	<b>17,567,657</b>

Additionally, the Group also reclassified impairment loss as other expenses in the consolidated statement of profit or loss and other comprehensive income.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### Effect on the consolidated statement of profit or loss and other comprehensive income

	As previously reported	Reclassifications	As reclassified
<b>2014</b>			
Other income/(expenses)	61,831	(225,355)	(163,524)
Impairment loss	(225,355)	225,355	-
Share of profit in joint ventures	267,861	(267,861)	-
Share of (loss)/profit in associates	(336,642)	336,642	-
Share of loss in associates and joint ventures	-	(68,781)	(68,781)

Additionally, the Group decided to show the following items together: advances paid for non-current assets and acquisition of property, plant and equipment in the consolidated statement of cash flows.

### Effect on the consolidated statement of cash flows

	As previously reported	Reclassifications	As reclassified
<b>2014</b>			
Other expenses	-	225,355	225,355
Impairment loss	225,355	(225,355)	-
Share of profit in joint ventures	(267,861)	267,861	-
Share of (loss)/profit in associates	336,642	(336,642)	-
Share of loss in associates and joint ventures	-	68,781	68,781
Advances paid for non-current assets	(1,045,582)	1,045,582	-
Acquisition of property, plant and equipment	(1,651,320)	1,651,320	-
Acquisition of property, plant and equipment and advances paid for non-current assets	-	(2,696,902)	(2,696,902)

## 6. 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:

	2015	2014
Specialised products and twofold purposes products	44,948,653	16,366,368
Services (engineering)	10,376,654	10,791,774
Civil purposes products	8,191,191	11,329,944
	<u>63,516,498</u>	<u>38,488,086</u>

The Group carries out its activity in Kazakhstan.

Inter-segment sales for 2015 are amounted to 10,680,605 thousand tenge (2014: nil).

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	2015	2014
Specialised products and twofold purposes products	44,948,653	16,366,368
Services (engineering)	10,376,654	10,791,774
Civil purposes products:		
- Oil and gas equipment	5,417,822	6,001,994
- Railway equipment	825,325	2,599,981
- Other products and services	1,948,044	2,727,969
	<u>63,516,498</u>	<u>38,488,086</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 2015, specialised products sales were mainly made to ministries and agencies of 51,498,039 thousand tenge, including some services (2014: 23,025,335 thousand tenge, including some services); oil and gas equipment sales were mainly made to JSC NC KazMunaiGas of 3,609,752 thousand tenge (2014: 4,629,989 thousand tenge), railway equipment sales were made to JSC NC Kazakhstan Temir Zholy of 1,633,259 thousand tenge (2014: 3,496,222 thousand tenge) (Note 35).

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

	2015	2014
Kazakhstan	61,419,946	35,392,286
CIS countries	2,096,552	2,748,200
Other	-	347,600
	<u>63,516,498</u>	<u>38,488,086</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 7. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery, equipment and vehicles	Other assets	Construction in progress	Total
<b>Initial or deemed cost:</b>						
At 1 January 2014	193,591	5,958,738	8,209,226	895,616	2,965,080	18,222,251
Additions	4,601	130,720	393,624	163,877	2,399,731	3,092,553
Internal movement	-	2,170,756	1,022,669	71,188	(3,264,613)	-
Disposals	-	(43,054)	(124,731)	(99,441)	(594)	(267,820)
At 31 December 2014	198,192	8,217,160	9,500,788	1,031,240	2,099,604	21,046,984
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
<b>Accumulated depreciation and impairment:</b>						
At 1 January 2014	-	(1,243,881)	(3,237,862)	(371,977)	-	(4,853,720)
Depreciation charge for the year	-	(170,361)	(688,116)	(115,283)	-	(973,760)
Disposals	-	7,207	94,864	63,980	-	166,051
Impairment losses recognised in profit or loss	-	-	(108,944)	-	-	(108,944)
At 31 December 2014	-	(1,407,035)	(3,940,058)	(423,280)	-	(5,770,373)
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)
<b>Carrying value:</b>						
At 31 December 2015	519,795	6,954,472	5,514,918	582,772	6,184,599	19,756,556
At 31 December 2014	198,192	6,810,125	5,560,730	607,960	2,099,604	15,276,611

As at 31 December 2015, construction in progress mainly includes the following capital expenditures:

- The development of MAZ automotive engineering in the subsidiary JSC Semipalatinsk Machinery Construction Plant of 556,964 thousand tenge (31 December 2014: 194,677 thousand tenge);
- Aeronautic engineering center in Astana project costs in the subsidiary Kazakhstan Aviation Industry LLP of 5,256,506 thousand tenge (31 December 2014: 1,259,667 thousand tenge). This project was mainly financed by the funds of State budget as a contribution into the charter capital of the Company.

As at 31 December 2015, property, plant and equipment with carrying value of 477,809 thousand tenge were pledged as collateral for certain loans received and bank guarantees by the Group (31 December 2014: 1,065,260 thousand tenge).

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

As at 31 December 2015, carrying value of property, plant and equipment received under finance lease amounted to 1,142,756 thousand tenge (31 December 2014: 1,295,944 thousand tenge). This equipment serves as collateral for the obligations under finance leases.

The cost of fully depreciated property, plant and equipment as at 31 December 2015 amounted to 1,032,866 thousand tenge (31 December 2014: 1,072,561 thousand tenge).

As at 31 December 2015, carrying value of temporarily idle property, plant and equipment amounted to 315,348 thousand tenge (31 December 2014: 336,494 thousand tenge).

### 8. SUBSIDIARIES

Name	Principal activity	Country	Ownership share 31 December	
			2015	2014
JSC 811 Motor-repair Plant KE	Repair of defence purposes vehicles and machinery, motor assembly and power unit, modernization of equipment	Kazakhstan	100%	100%
JSC 832 Motor-repair Plant KE	Repair of vehicles	Kazakhstan	100%	100%
JSC S.M. Kirov Plant	Navigation systems, radio stations, railway control console, oil and gas control units and automated machinery	Kazakhstan	84%	84%
JSC Kirov Machinery Plant	Submarine weapons and hydraulics and automatics for marine ships; pneumatic perforators for extracting industry; spare parts for railway industry	Kazakhstan	98%	98%
JSC Munaymash	Downhole sucker rod pumps for oil and gas sector, wide range goods	Kazakhstan	52%	52%
JSC Research Institute Hydropribor	Design and research, manufacture of marine, river boats, ships, boats and other vessels and underwater vehicles, ground and aerial robots and boats, equipment for underwater inspection and repair of pipelines, oil rigs, underwater objects	Kazakhstan	93%	93%
JSC Omega Instrument Making Plant	Water purification plants "Taza Su", parts and components for railway; digital phone stations and spare parts, phones, wide range goods	Kazakhstan	99%	99%
JSC Petropavlovsk Heavy Machinery Building Plant	Special equipment for oil, vessels working under pressure, and tools for repair and maintenance railways, parts of rolling stock, production and sale of defence purposes products, production and modernization of modern specialised equipment	Kazakhstan	100%	100%
JSC Semey Engineering	Repair of defence purposes vehicles, engines, car shipping	Kazakhstan	100%	100%
JSC Semipalatinsk Machinery Construction Plant	Crawler-Transporters tractors, manhole covers for the wagons, repair of engineering equipment	Kazakhstan	99%	99%
JSC Tynys	Medical equipment, gas drive fittings, aviation products, tubes, extinguishing	Kazakhstan	99%	99%
JSC Uralsk Plant Zenith	Boats and ships for the Navy of RK, design and fabrication of steel structures, parts for oil and gas industry	Kazakhstan	95%	95%
JSC KazEng Electronics	Research and works in electronics, the creation of automated control systems, development and implementation of programs and technologies	Kazakhstan	100%	100%
SRJ Kazakhstan Engineering LLP (former The united center of armament controlling systems introduction)	Design and development of new types of special products for the defence industry	Kazakhstan	100%	100%
Kazakhstan Aviation Industry LLP	Maintenance and support of aviation technics	Kazakhstan	100%	100%
JV Korgau Engineering LLP	Production and supply of personal protective equipment for human respiratory system	Kazakhstan	100%	-

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

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

Name of subsidiary	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
JSC Munaymash	48%	48%	71,069	100,947	498,349	534,098

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 2015	31 December 2014
Current assets	1,130,586	1,454,320
Non-current assets	1,287,790	1,303,117
Current liabilities	(735,861)	(773,237)
Non-current liabilities	(643,856)	(871,496)
Equity attributable to Parent of the Company	540,310	578,606
Non-controlling interests	498,349	534,098
	<b>2015</b>	<b>2014</b>
Revenue	2,351,261	3,193,291
Expenses	(2,203,077)	(2,982,985)
Profit and total comprehensive income for the year	148,184	210,306
Attributable to:		
the Shareholder	77,115	109,359
the non-controlling interests	71,069	100,947
Profit and total comprehensive income for the year	148,184	210,306
Dividends declared to non-controlling interests	106,581	41,351
Dividends paid to non-controlling interests	52,998	41,351
Net cash inflow/(outflow) from:		
- operating activities	201,549	306,436
- investing activities	(57,986)	(23,563)
- financing activities	(291,198)	(264,885)
Net cash (outflow)/inflow	(147,635)	17,988

## JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)  
(in thousands of tenge)

### 9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Place of incorporation and principal place of business	2015		2014	
			Carrying value	Share	Carrying value	Share
<b>Associates:</b>						
JSC KAMAZ-engineering	Manufacture and sale of buses, cars, special-purpose equipment and its spare parts	Kazakhstan	625,588	25.00% 22.07%-	661,025	25.00% 22.07%-
Other			16,250	49.00%	-	49.00%
<b>Total investments in associates</b>			<b>641,838</b>		<b>661,025</b>	
<b>Joint ventures:</b>						
Eurocopter Kazakhstan engineering LLP	Manufacture and technical maintenance of helicopters 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	2,775,622	50.00%	2,878,084	50.00%
Thales Kazakhstan engineering LLP		Kazakhstan	-	50.00%	-	50.00%
Kazakhstan ASELSAN engineering LLP	Manufacture of electronic and optical devices	Kazakhstan	2,946,249	50.00%	3,178,977	50.00%
<b>Total investments in joint ventures</b>			<b>5,721,871</b>		<b>6,057,061</b>	



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

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

	2015	2014
<b>Associates</b>		
<b>At 1 January</b>	661,025	1,707,626
Share of profit/(loss)	58,195	(336,642)
Dividends received	(77,382)	(82,857)
Impairment	-	(34,609)
Transfer to assets classified as held for sale (Note 16)	-	(592,493)
<b>At 31 December</b>	<u>641,838</u>	<u>661,025</u>
<b>Joint ventures</b>		
<b>At 1 January</b>	6,057,061	3,057,799
Share of (loss)/profit	(335,190)	267,861
Contributions to charter capital without change in ownership share	-	3,000,000
Fair value adjustment of interest free loan given (Note 35)	-	87,825
Dividends	-	(274,622)
Impairment	-	(81,802)
<b>At 31 December</b>	<u>5,721,871</u>	<u>6,057,061</u>

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

	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Current assets, including	3,444,289	6,049,955	4,977,155	3,058,312
<i>Cash and cash equivalents</i>	1,867,532	3,748,832	953,515	895,227
Non-current assets	2,221,329	1,828,139	7,256,124	5,930,527
Current liabilities, including	(61,968)	(2,121,926)	(6,656,915)	(3,042,288)
<i>Current financial liabilities (less trade and other payables and provisions)</i>	-	-	-	(956,861)
Non-current liabilities	<u>(52,406)</u>	<u>-</u>	<u>(173,716)</u>	<u>(59,379)</u>
Net assets	<u>5,551,244</u>	<u>5,756,168</u>	<u>5,402,648</u>	<u>5,887,172</u>
Group's ownership interest	50%	50%	50%	50%
Group's share of net assets	2,775,622	2,878,084	2,701,324	2,943,586
Fair value adjustment of interest free loan given	<u>-</u>	<u>-</u>	<u>244,925</u>	<u>235,391</u>
Carrying amount of the Group's interest in joint ventures	<u>2,775,622</u>	<u>2,878,084</u>	<u>2,946,249</u>	<u>3,178,977</u>
	Eurocopter Kazakhstan engineering LLP		Kazakhstan ASELSAN engineering LLP	
	2015	2014	2015	2014
Revenue	<u>90,224</u>	<u>12,551,353</u>	<u>9,405,227</u>	<u>3,898,309</u>
(Loss)/profit and total comprehensive (loss)/income for the year	<u>(204,924)</u>	<u>779,262</u>	<u>(465,456)</u>	<u>(216,252)</u>
Share of (loss)/profit in joint ventures	<u>(102,462)</u>	<u>389,631</u>	<u>(232,728)</u>	<u>(108,126)</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 10. OTHER NON-CURRENT ASSETS

	31 December 2015	31 December 2014
Value added tax	957,785	-
Advances paid for property, plant and equipment	880,486	1,045,582
Inventories for capital repair and construction of non-current assets	249,401	176,712
Other non-current assets	22,603	21,592
	<u>2,110,275</u>	<u>1,243,886</u>

Long-term value added tax arose in the following subsidiaries: JSC Tynys in the amount of 382,110 thousand tenge and Kazakhstan Aviation Industry LLP in the amount of 575,675 thousand tenge. The management expects that these amounts will be recoverable in terms more than 12 months.

### 11. INVENTORY

	31 December 2015	31 December 2014
Raw materials	7,681,245	6,637,261
Work-in-process	7,913,165	5,190,215
Finished goods	2,874,726	2,196,720
Goods for resale	97,509	55,705
	<u>18,566,645</u>	<u>14,079,901</u>
Less: allowance for obsolete inventories	<u>(244,922)</u>	<u>(313,413)</u>
	<u>18,321,723</u>	<u>13,766,488</u>

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

	2015	2014
Allowance for obsolete inventories at the beginning of the year	(313,413)	(369,338)
Accrued during the year (Note 26)	(114,718)	(41,735)
Written-off against previously created allowance	183,209	97,660
	<u>(244,922)</u>	<u>(313,413)</u>

### 12. TRADE ACCOUNTS RECEIVABLE

	31 December 2015	31 December 2014
Trade receivables from related parties (Note 35)	2,200,582	2,737,925
Trade receivables from third parties	1,084,751	1,965,467
	<u>3,285,333</u>	<u>4,703,392</u>
Less: allowance for doubtful debts from third parties	<u>(259,390)</u>	<u>(257,045)</u>
	<u>3,025,943</u>	<u>4,446,347</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	2015	2014
Allowance for doubtful debts at the beginning of the year	(257,045)	(110,688)
Accrued during the year	(171,297)	(156,004)
Written-off against previously created allowance	<u>168,952</u>	<u>9,647</u>
Allowance for doubtful debts at the end of the year	<u>(259,390)</u>	<u>(257,045)</u>

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

	31 December 2015	31 December 2014
Tenge	2,982,320	4,023,576
Russian roubles	39,709	73,126
U.S. dollars	3,375	349,645
Euro	<u>539</u>	<u>-</u>
	<u>3,025,943</u>	<u>4,446,347</u>

### 13. OTHER CURRENT ASSETS

	31 December 2015	31 December 2014
Short-term advances given to third parties	8,832,868	2,307,800
Prepaid expenses	108,656	46,956
Dividends receivable (Note 35)	57,120	18,095
Short-term advances given to related parties (Note 35)	55,533	51,565
Receivable from employees	42,329	23,419
Loans to a related party (Note 35)	-	1,476,364
Other accounts receivable	<u>269,136</u>	<u>414,871</u>
	9,365,642	4,339,070
Less: fair value adjustment (Note 35)	-	(19,067)
Less: allowance for doubtful debts	<u>(186,787)</u>	<u>(253,905)</u>
	<u>9,178,855</u>	<u>4,066,098</u>

Short-term advances given to third parties as at 31 December 2015 include short-term advances given to suppliers for goods and services in the amount of 6,863,145 thousand tenge for the execution of the state defence orders (Note 1) (31 December 2014: nil).

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

	2015	2014
Allowance for doubtful debts at the beginning of the year	(253,905)	(75,388)
Recovered/(accrued) during the year	58,203	(190,817)
Written-off against previously created allowance	<u>8,915</u>	<u>12,300</u>
Allowance for doubtful debts at the end of the year	<u>(186,787)</u>	<u>(253,905)</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	31 December 2015	31 December 2014
Tenge	274,657	439,985
Russian roubles	60,270	35,467
U.S. dollars	33,658	1,457,297
	<u>368,585</u>	<u>1,932,749</u>

### 14. SHORT-TERM FINANCIAL INVESTMENTS

	31 December 2015		31 December 2014	
	Interest Rate	Amount	Interest rate	Amount
JSC Tsesnabank	3.0%-15.0%	29,057,260	3.0%-6.5%	27,816,392
JSC ATF Bank	8.0%	502,900	8.0%-8.5%	205,500
JSC Eurasian Bank	3.0-10.5%	370,162	-	-
JSC Delta Bank	4.0-12.0%	344,601	-	-
JSC Halyk Bank of Kazakhstan	12.0%	170,000	-	-
JSC SB Sberbank	10.8-14.7%	63,274	-	-
JSC Bank CenterCredit	10.5%	-	6.0%	774,189
		<u>30,508,197</u>		<u>28,796,081</u>
Less: long-term portion		(4,479)		(900)
		<u>30,503,718</u>		<u>28,795,181</u>

As at 31 December 2015 and 2014, short-term financial investments are represented by bank deposits, which mature in 12 months.

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

	31 December 2015	31 December 2014
U.S. dollars	29,483,079	28,443,925
Tenge	935,993	351,256
Russian roubles	84,646	-
	<u>30,503,718</u>	<u>28,795,181</u>

### 15. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash on bank accounts in tenge	18,017,797	10,057,730
Cash on bank accounts in foreign currencies	1,034,586	354,970
Petty cash in tenge	41,411	37,456
Cash on special bank accounts in tenge	2,975	858
Cash in transit in tenge	245	74
Short-term deposits	89,000	-
	<u>19,186,014</u>	<u>10,451,088</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

As at 31 December 2015, short-term deposits represent deposits in JSC Tsesnabank in the amount of 89,000 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 4.6%-9.2% per annum.

Cash and cash equivalents are denominated in the following currencies:

	31 December 2015	31 December 2014
Tenge	18,151,428	10,096,118
U.S. dollars	662,196	34,301
Russian roubles	364,129	316,368
Euro	8,261	4,301
	<u>19,186,014</u>	<u>10,451,088</u>

### 16. ASSETS CLASSIFIED AS HELD FOR SALE

In July-August 2014, within the privatization plan for 2014-2016 approved by the Government of the Republic of Kazakhstan, the Shareholder approved a list of the Group's subsidiaries, associates and joint ventures subject to disposal. Investments, whose sale were highly probable in 2015, were classified as assets held for sale in the consolidated statement of financial position for the amount of 592,493 thousand tenge as at 31 December 2014. These were represented by investments in the following associates: JSC ZIKSTO (42.13%), MBM-Kirovets LLP (49%) and Kaz-ST engineering Bastau LLP (49%). During 2015, the management took actions to sell these assets through auctions held by JSC Information-stocking Center. As at 31 December 2015, the management's actions to sell these assets are still ongoing. Management of the Group anticipates that the proceeds from the sale of these assets will exceed its carrying amount and, accordingly, no impairment was recognized upon their classification as held for sale, except for investments in MBM-Kirovets LLP in the amount of 34,609 thousand tenge.

As at 31 December 2015, property, plant and equipment classified as assets held for sale amounted to 262 thousand tenge (31 December 2014: 965 thousand tenge).

On 30 December 2015, the Government of the Republic of Kazakhstan authorized new privatization plan for 2016-2020, which included the companies listed in the previous resolution.

### 17. CHARTER CAPITAL

As at 31 December 2015 and 2014, authorized, issued and fully paid charter capital of the Company consists of common shares of 21,476,802 shares with par value of 1,000 tenge, each.

During 2014, the Company issued additional common shares of 9,375,000 shares with par value of 1,000 tenge each. The issued common shares were purchased by the Committee of property and privatization of the Ministry of Finance of Kazakhstan (hereafter – "Ministry of Finance"). On 15 December 2014, the Ministry of Finance transferred all holding shares of the Company to JSC SWF Samruk-Kazyna.

In 2015 and 2014, the Company declared and paid dividends to the Shareholder in the amount of 140,336 thousand tenge and 652,286 thousand tenge, respectively.

As at 31 December 2015 and 2014, 100% of the Company's shares belong to JSC SWF Samruk-Kazyna.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 18. ADDITIONAL PAID-IN-CAPITAL

As at 31 December 2015 and 2014, 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 Shareholder of 412,406 thousand tenge. These loans were fully repaid during 2013.

### 19. NON-CONTROLLING INTERESTS

	2015	2014
At 1 January	691,530	631,934
Profit and total comprehensive income for the year, attributable to non-controlling interests	71,069	100,947
Dividends	(106,581)	(41,351)
At 31 December	<u>656,018</u>	<u>691,530</u>

### 20. DEBT SECURITIES AND LOANS

	Maturity	Coupon rate	31 December 2015	31 December 2014
Local bonds issued at a price of:				
95.2341% - Tranche 1	6 November 2015	5%	-	4,534,000
96.4613% - Tranche 2	6 November 2015	5%	-	1,200,000
96.9239% - Tranche 3	6 November 2015	5%	-	1,000,000
97.3266% - Tranche 4	6 November 2015	5%	-	1,885,000
97.8540% - Tranche 5	6 November 2015	5%	-	1,765,000
Eurobonds issued at a price of 100%	3 December 2016	4.55%	68,002,000	36,470,000
Loans	30 September 2016	8%	750,000	-
Including/(less):				
Accrued coupon			231,689	202,334
Transaction costs			(197,633)	(214,374)
Discount on debt securities issued			-	(176,613)
Total debt securities and loans			<u>68,786,056</u>	<u>46,665,347</u>
Less: current portion of debt securities and loans			<u>(68,786,056)</u>	<u>(10,409,721)</u>
Non-current portion of debt securities and loans			<u>-</u>	<u>36,255,626</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### Local bonds

On 6 November 2015, the Group fully repaid its local bonds in the amount of 10,384,000 thousand tenge.

### 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 annual coupon rate of 4.55%. Interest on the Eurobonds is payable semi-annually on 3 June and 3 December in each year, commencing on 3 June 2015.

### Loans

In accordance with the credit line agreement concluded with JSC Kazkommertsbank, during 2015, the subsidiary JSC Petropavlovsk Heavy Machinery Building Plant borrowed short-term loans of 790,641 thousand tenge for replenishment of working capital at the interest rate of 8% per annum and maturity of twelve months. Loan is guaranteed by the Company. Interest and principal are paid monthly.

## 21. TRADE ACCOUNTS PAYABLE

	31 December 2015	31 December 2014
Accounts payable to suppliers and contractors	2,245,179	1,291,528
Accounts payable to related parties (Note 35)	1,003,798	1,138,124
	<u>3,248,977</u>	<u>2,429,652</u>

Trade accounts payable are denominated in the following currencies:

	31 December 2015	31 December 2014
Tenge	2,389,925	1,309,428
U.S. dollars	544,017	408,148
Russian roubles	213,957	631,864
Euro	101,078	80,212
	<u>3,248,977</u>	<u>2,429,652</u>

## 22. OTHER TAXES PAYABLE

	31 December 2015	31 December 2014
VAT payable	1,957,941	1,082,527
Pension and social contributions	174,848	194,094
Personal income tax	131,568	172,073
Social tax	78,951	91,296
Other taxes	6,996	27,885
	<u>2,350,304</u>	<u>1,567,875</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 23. OTHER CURRENT LIABILITIES

	31 December 2015	31 December 2014
Provisions	950,767	375,245
Advances received from third parties	616,425	858,147
Dividends payable to third parties	283,342	203,427
Salary payable	173,397	309,834
Other payables	766,070	154,853
	<u>2,790,001</u>	<u>1,901,506</u>

Movement in provisions is presented as follows:

	Warranty repair	Unused vacation and other remunerations	Other accrued liabilities	Total
At 1 January 2014	<u>74,581</u>	<u>375,346</u>	<u>52,634</u>	<u>502,561</u>
Recognised in:				
non-current liabilities	12,349	21,571	-	33,920
current liabilities	<u>62,232</u>	<u>353,775</u>	<u>52,634</u>	<u>468,641</u>
(Recovered)/accrued for the year	(50,151)	968,787	22,972	941,608
Repaid/used	<u>(328)</u>	<u>(977,414)</u>	<u>(53,082)</u>	<u>(1,030,824)</u>
At 31 December 2014	<u>24,102</u>	<u>366,719</u>	<u>22,524</u>	<u>413,345</u>
Recognised in:				
non-current liabilities	13,004	25,096	-	38,100
current liabilities	<u>11,098</u>	<u>341,623</u>	<u>22,524</u>	<u>375,245</u>
Accrued for the year	258,412	931,632	17,825	1,207,869
Repaid/used	<u>(619)</u>	<u>(622,384)</u>	<u>(20,600)</u>	<u>(643,603)</u>
At 31 December 2015	<u>281,895</u>	<u>675,967</u>	<u>19,749</u>	<u>977,611</u>
Recognised in:				
non-current liabilities	3,429	23,415	-	26,844
current liabilities	<u>278,466</u>	<u>652,552</u>	<u>19,749</u>	<u>950,767</u>
	<u>281,895</u>	<u>675,967</u>	<u>19,749</u>	<u>977,611</u>

Other current liabilities are mainly denominated in tenge.

### 24. REVENUE

	2015	2014
Revenue from defense products for resale	36,290,079	-
Revenue from sale of goods	16,849,765	27,574,303
Revenue from rendering of services	<u>10,376,654</u>	<u>10,913,783</u>
	<u>63,516,498</u>	<u>38,488,086</u>

In 2015, revenue from operations with related parties amounted to 57,649,510 thousand tenge (2014: 32,360,097 thousand tenge), which represents 91% of total revenue (2014: 84%) (Note 35).

Revenue from defense products for resale represents revenue from products purchased from associates, joint-ventures and third parties and sold by the Group for state defence order purposes (Note 1).



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 25. COST OF SALES

	2015 r.	2014 r.
Cost of defense products for resale	35,273,957	-
Cost of manufactured goods and services	<u>22,420,340</u>	<u>28,697,195</u>
	<u>57,694,297</u>	<u>28,697,195</u>

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

	2015	2014
Raw materials	14,042,202	18,767,492
Payroll and related taxes	5,815,023	5,815,762
Subcontractors' services	3,530,162	2,121,906
Depreciation and amortisation	911,109	762,523
Utilities	439,723	508,355
Provision for unused vacation and other remunerations (Notes 23, 26, 27)	431,649	745,741
Accrual/(recovery) of provision for warranty repair (Note 23)	258,412	(50,151)
Repair and maintenance	136,433	352,615
Other	<u>256,583</u>	<u>444,536</u>
	<u>25,821,296</u>	<u>29,468,779</u>
Work-in-process at the beginning of the year	5,190,215	4,643,747
Work-in-process at the end of the year (Note 11)	<u>7,913,165</u>	<u>5,190,215</u>
Change in work-in-process	<u>(2,722,950)</u>	<u>(546,468)</u>
Finished goods at the beginning of the year	2,196,720	1,971,604
Finished goods at the end of the year (Note 11)	<u>2,874,726</u>	<u>2,196,720</u>
Change in finished goods	<u>(678,006)</u>	<u>(225,116)</u>
	<u>22,420,340</u>	<u>28,697,195</u>

### 26. ADMINISTRATIVE EXPENSES

	2015	2014
Payroll and related taxes	1,835,235	2,216,641
Provision for unused vacation and other remunerations (Notes 23, 25, 27)	488,747	223,046
Depreciation and amortisation	204,779	196,489
Rent expenses	191,564	193,347
Business trips and representative expenses	141,305	182,426
Allowance for obsolete inventories (Note 11)	114,718	41,735
Allowance for doubtful debts	113,094	126,821
Taxes	96,187	109,984
Fines and penalties	92,233	9,678
Utilities	83,875	85,986
Bank commissions	50,468	63,533
Professional services	44,511	67,969
Repair and maintenance	42,676	51,209
Materials	40,803	64,336
Communication	32,392	33,048
Education of personnel	25,874	26,531
Accrual of other provisions (Note 23)	17,825	22,972
Other	<u>923,458</u>	<u>690,126</u>
	<u>4,539,744</u>	<u>4,405,877</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 27. SELLING EXPENSES

	2015	2014
Payroll and related taxes	288,306	306,797
Transportation	134,290	218,838
Business trips	102,409	120,978
VAT non-recoverable	100,154	81,478
Depreciation and amortization	15,515	25,229
Provision for unused vacation and other remunerations (Notes 23, 25, 26)	11,236	-
Other	203,008	294,644
	<u>854,918</u>	<u>1,047,964</u>

### 28. FOREIGN EXCHANGE LOSS

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. Due to the fact that the Group has debt securities issued in foreign currency (Note 20), net foreign exchange loss for 2015 amounted to 13,811,348 thousand tenge (2014: 1,645,870 thousand tenge). Currency risk management is described in Note 33.

### 29. FINANCE INCOME

	2015	2014
Gain arising on financial assets designated as at fair value through profit or loss (Note 35)	3,618,164	-
Interest on short-term deposits and current accounts	1,985,408	1,662,285
Interest income on loans given (Note 35)	363,098	16,603
Amortisation of fair value adjustment on loans given (Note 35)	19,067	104,817
Other finance income	107,513	79,817
	<u>6,093,250</u>	<u>1,863,522</u>

### 30. FINANCE COSTS

	2015	2014
Coupon on bonds issued	2,304,410	1,981,573
Amortisation of discount on bonds issued	312,915	296,591
Interest on finance lease	40,770	47,160
Other finance costs	124,244	132,159
	<u>2,782,339</u>	<u>2,457,483</u>

During 2015, finance costs from related parties amounted to 248,673 thousand tenge (2014: 185,565 thousand tenge) (Note 35).

### 31. TAXATION

	2015	2014
Current income tax expense	327,672	1,220,487
Adjustment of current income tax for prior years	-	36,828
Deferred tax benefit	(1,857,911)	(309,799)
	<u>(1,530,239)</u>	<u>947,516</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	2015	2014
(Loss)/profit before income tax from continuing operations	<u>(9,796,657)</u>	<u>1,864,914</u>
Theoretical income tax at official tax rate of 20%	(1,959,331)	372,983
Tax effect of permanent differences	373,693	267,114
Share of loss in associates and joint ventures not taxable	55,399	13,756
Unrecognized deferred tax asset	-	150,753
Taxable gain on revaluation	-	106,082
Adjustment of current income tax for prior years	<u>-</u>	<u>36,828</u>
	<u>(1,530,239)</u>	<u>947,516</u>

Below is the tax effect on major temporary differences, which cause the deferred tax assets and liabilities as at 31 December 2015 and 2014:

	At 1 January 2015	Recognised in profit and loss	At 31 December 2015
Tax losses carried forward	555,563	2,278,757	2,834,320
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	<u>(724,487)</u>	<u>(547,081)</u>	<u>(1,271,568)</u>
	<u>61,923</u>	<u>1,857,911</u>	<u>1,919,834</u>

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

## 32. 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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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### **Legal matters**

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

### **Environmental matters**

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

### **Insurance**

The Group has not insured its production assets, or provided for the third party and employee liability insurance. Since the lack of insurance does not decrease the value of assets or increase liabilities, no provision for possible damages or losses of these assets has been made in these consolidated financial statements as at 31 December 2015.

### **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 2015 and 2014, the Group has number of commitments for acquisition of property, plant and equipment of 3,236,089 thousand tenge and 7,591,163 thousand tenge, respectively.

## **33. 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 17, 18 and 19).

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

	31 December 2015	31 December 2014
Borrowed funds	69,766,214	47,765,706
Cash and cash equivalents, short-term investments and restricted cash	<u>(49,953,554)</u>	<u>(39,777,534)</u>
Net debt	<u>19,812,660</u>	<u>7,988,172</u>
Equity	<u>24,647,008</u>	<u>33,168,606</u>
Net debt to equity ratio	80.39%	24.08%

### Significant accounting policies

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

### Financial risk management objectives

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

#### Interest rate risk

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

#### Currency risk

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

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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### *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 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
<b>Financial assets:</b>						
Cash and cash equivalents	662,196	34,301	364,129	316,368	8,261	4,301
Restricted cash	-	97,921	-	-	-	-
Short-term investments	29,483,079	28,443,925	84,646	-	-	-
Interest-free loan to a related party	-	1,457,297	-	-	-	-
Trade and other receivables	37,033	349,645	99,979	108,593	539	-
<b>Financial liabilities:</b>						
Debt securities issued	(68,036,056)	(36,380,080)	-	-	-	-
Trade accounts payable	(544,017)	(408,148)	(213,957)	(631,864)	(101,078)	(80,212)
	<u>(38,397,765)</u>	<u>(6,405,139)</u>	<u>334,797</u>	<u>(206,903)</u>	<u>(92,278)</u>	<u>(75,911)</u>

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

	2015	2014
U.S. dollars	221.73	179.19
EURO	245.80	238.10
Russian roubles	3.61	4.76

### *Sensitivity analysis*

The following table details the Group's sensitivity to 60.00% (2014: 17.37%) increase and decrease in the value of KZT with respect to USD, 40.00% (2014: 33.54%) with respect to Russian roubles and 60.00% (2014: 18.36%) with respect to Euro. 60.00%, 40.00% and 60.00% 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) external loans and payables and b) receivables of the Company, where the denomination of the loan or payables/receivables is in a currency other than the currency of the lender or the borrower.

The following table shows changes in financial assets and liabilities when KZT weakens by 60.00%, 40.00% and 60.00% compared to the relevant currency.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	U.S. dollars		Russian roubles		EURO	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Profit or loss	(23,038,659)	(1,110,877)	133,919	(13,941)	(55,367)	(69,512)

### Credit risk

Credit risk arising from non-performing contract terms with the Group's financial instruments by counterparty is usually limited to the amounts, if any, to which the value of counterparties' liabilities exceeds the liabilities of the Group to the contractors. The Group's policy provides for the performance of transactions with financial instruments with a number of creditworthy counterparties. The maximum value of the exposure to credit risk is the carrying amount of each financial asset. The Group believes that the maximum risk is its trade receivables (Note 12), less allowance for doubtful accounts reflected at the reporting date.

Concentration of credit risk can arise when there are multiple amounts owed by a borrower or a group of borrowers with similar conditions for which there is reason to expect that changes in economic conditions or other circumstances may equally affect their ability to 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 2015	31 December 2014
Within the country	2,982,320	4,023,576
Outside the country	43,623	422,771
	<u>3,025,943</u>	<u>4,446,347</u>

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 2015 and 2014, distribution of trade receivables by ageing was as follows:

	31 December 2015	31 December 2014
Not overdue	3,025,943	3,879,479
Overdue by 3-6 months	259,390	6,497
Overdue by 6-12 months	-	560,371
Overdue by more than 12 months	-	257,045
	<u>3,285,333</u>	<u>4,703,392</u>

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 2015, 59% of the Group's cash and cash equivalents in the amount of 11,335,848 thousand tenge, including short-term deposits in the amount of 89,000 thousand tenge (31 December 2014 – 6% in the amount of 606,702 thousand tenge) (Note 15) and 95% of short-term financial investments in the amount of 29,057,260 thousand tenge (31 December 2014 – 97% in the amount of 27,816,392 thousand tenge) (Note 14) are placed at JSC Tsesnabank (a credit rating B+/Stable/B, kzBBB according to Standard&Poor's rating), which represents a significant concentration.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

The Group analyses liquidity, credit and currency risks when placing short-term financial investments in second tier banks. The management analysed the terms of agreements on short-term financial investments in JSC Tsesnabank and concluded that the Group will recover these investments as scheduled within one year.

### 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>2015</b>						
<i>Non-interest bearing:</i>						
Trade accounts payable		3,248,977	-	-	-	3,248,977
Other liabilities		173,397	1,048,949	20,841	229,885	1,473,072
<i>Interest bearing:</i>						
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
	Interest	1-6 months	6 months – 1 year	1-5 years	More than 5 years	Total
<b>2014</b>						
<i>Non-interest bearing:</i>						
Trade accounts payable		2,429,652	-	-	-	2,429,652
Other liabilities		309,834	357,953	65,316	221,625	954,728
<i>Interest bearing:</i>						
Debt securities issued	4.55%-5%	202,334	12,308,092	37,790,557	-	50,300,983
Finance lease	5%	85,353	83,753	748,672	110,890	1,028,668



# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

	Interest rate	1 month – 1 year	1-5 years	More than 5 years	Unknown period	Total
<b>2015</b>						
<i>Interest bearing:</i>						
Short-term financial investments	8.97%	33,239,723	-	-	-	33,239,723
Short-term deposits	4.6%-9.2%	90,535	-	-	-	90,535
<i>Non-interest bearing:</i>						
Cash and cash equivalents, less petty cash		19,097,014	-	-	-	19,097,014
Restricted cash		263,822	-	-	-	263,822
Trade accounts receivable		3,025,943	-	-	186,787	3,212,730
Other assets		368,585	20,742	-	-	389,327
<b>2014</b>						
<i>Interest bearing:</i>						
Short-term financial investments	5%	30,810,844	-	-	-	30,810,844
<i>Non-interest bearing:</i>						
Cash and cash equivalents, less petty cash		10,451,088	-	-	-	10,451,088
Restricted cash		531,265	-	-	-	531,265
Trade accounts receivable		4,446,347	-	-	257,045	4,703,392
Other assets		1,913,682	21,592	-	-	1,935,274

### 34. 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.

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### 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.

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

	31 December 2015		31 December 2014	
	Fair value	Carrying value	Fair value	Carrying value
<b>Assets</b>				
Loans to a related party	-	-	1,457,364	1,457,364
Short-term financial investments	30,503,718	30,503,718	28,795,181	28,795,181
Assets classified as held for sale	592,755	592,755	593,458	593,458
	<u>31,096,473</u>	<u>31,096,473</u>	<u>30,846,003</u>	<u>30,846,003</u>
<b>Liabilities</b>				
Loans	750,000	750,000	-	-
Debt securities issued	66,464,883	68,036,056	45,756,464	46,665,347
Finance lease obligations	750,273	750,273	878,734	878,734
	<u>67,965,156</u>	<u>69,536,329</u>	<u>46,635,198</u>	<u>47,544,081</u>

### Fair value hierarchy as at 31 December 2015

	Fair value hierarchy as at 31 December 2015			Total
	Level 1	Level 2	Level 3	
<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

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

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

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

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

### 35. RELATED PARTY TRANSACTIONS

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

#### Trade accounts receivable (Note 12)

	31 December 2015	31 December 2014
Ministries and agencies	751,454	688,569
JSC NC Kazakhstan Temir Zholy	603,327	1,127,706
JSC NC KazMunaiGas	320,929	570,370
JSC Mangystaumunaigaz	303,441	227,498
JSC Locomotive Kurastyru Zauyty	192,017	-
Other	29,414	123,782
	<u>2,200,582</u>	<u>2,737,925</u>

#### Dividends receivable (Note 13)

	31 December 2015	31 December 2014
MBM-Kirovets LLP	41,365	-
JSC ZIKSTO	15,755	18,095
	<u>57,120</u>	<u>18,095</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### Trade accounts payable (Note 21)

	31 December 2015	31 December 2014
Elkam LLP	323,095	395,214
Kazakhstan ASELSAN engineering LLP	145,276	-
Ministries and agencies	103,000	-
JSC Aviarepair plant No.405	96,526	499,623
JSC KAMAZ-Engineering	92,095	78,148
CJSC Ulan	80,620	-
Eurocopter Kazakhstan engineering LLP	72,135	-
Samruk-Kazyna Corporate University LLP	55,289	-
JSC NC Kazakhstan Temir Zholy	10,194	145,155
JSC Samruk Energy	8,672	15,334
Other	16,896	4,650
	<u>1,003,798</u>	<u>1,138,124</u>

### Advances given

	31 December 2015	31 December 2014
Kazakhstan ASELSAN engineering LLP	30,034	-
JSC NC KazMunaiGas	10,921	14,426
JSC NC Kazakhstan Temir Zholy	7,967	-
CJSC Ulan	3,402	-
JSC Kazpost	2,716	4,059
JSC Samruk Energy	231	3,237
Other	262	29,843
	<u>55,533</u>	<u>51,565</u>

### Loans given (Note 13)

	31 December 2015	31 December 2014
Kazakhstan ASELSAN engineering LLP	-	1,476,364
Accrued interest	-	-
Less fair value adjustment	-	(19,067)
	<u>-</u>	<u>1,457,297</u>

During 2015, Kazakhstan ASELSAN engineering LLP repaid all its obligations related to the loan in the amount of 1,065,600 thousand tenge. A residual amount of 410,764 thousand tenge was offset against payables to Kazakhstan ASELSAN engineering LLP related to a State defence order.

During 2015, the Group provided short-term loans to Kazakhstan Paramount engineering LLP in the amount of 6,670,200 thousand tenge at annual interest rate of 13.5%. The loan agreement included the term on loan indexation in the case of tenge/US dollar exchange rate increase by more than 5%. This indexation term represents a foreign exchange rate cap resulting in an embedded derivative, which was recognized at fair value of 3,618,164 thousand tenge through profit or loss. By the end of 2015, Kazakhstan Paramount engineering LLP fully repaid its obligation in the amount of 10,353,103 thousand tenge, including amounts related to this indexation.

For the year ended 31 December 2015, finance income amounted to 382,165 thousand tenge (2014: 121,420 thousand tenge), including interest income of 363,098 thousand tenge (2014: 16,603 thousand tenge) and amortisation of fair value adjustment of 19,067 thousand tenge (2014: 104,817 thousand tenge) (Note 29).

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### Advances received

	31 December 2015	31 December 2014
Ministries and agencies	9,705,349	469,405
JSC NC KazMunaiGas	31,979	7,616
JSC NC Kazakhstan Temir Zholy	-	10,719
Others	34,588	-
	<u>9,771,916</u>	<u>487,740</u>

### Dividends to the Shareholder (Note 17)

	2015	2014
Accrued for the period	140,336	652,286

### Revenue (Note 24)

	2015	2014
Ministries and agencies	51,498,039	23,025,335
JSC NC KazMunaiGas	3,609,752	4,629,989
JSC NC Kazakhstan Temir Zholy	1,633,259	3,496,222
JSC Mangystaumunaigaz	435,312	966,574
JSC Lokomotiv kurastyru zauty	186,498	30,555
JSC NAC Kazatomprom	70,413	534
CJSC Elkam-Neftemash	41,356	11,447
JSC KAMAZ-Engineering	21,038	33,881
Other	153,843	165,560
	<u>57,649,510</u>	<u>32,360,097</u>

### Expenditures on services rendered and goods acquired

	2015	2014
JSC Aviarepair plant No.405	331,305	71,110
JSC NC Kazakhstan Temir Zholy	307,849	479,379
Samruk-Kazyna Corporate University LLP	269,991	-
JSC NC KazMunaiGas	87,345	127,273
Eurocopter Kazakhstan engineering LLP	64,406	-
JSC Samruk Energy	54,260	80,184
Samruk Kazyna-Contract LLP	33,346	14,476
JSC Kazakhtelecom	21,178	19,313
Elkam LLP	-	1,932,838
Kaz-ST Engineering Bastau LLP	-	80,939
Elkam Munaymash LLP	-	11,733
JSC BTA Bank	-	10,649
Other	35,108	210,262
	<u>1,204,788</u>	<u>3,038,156</u>

### Finance income (Note 29)

	2015	2014
Kazakhstan Paramount engineering LLP	3,981,262	-
Kazakhstan ASELSAN engineering LLP	19,067	121,420
JSC BTA Bank	-	3,091
	<u>4,000,329</u>	<u>124,511</u>

# JSC KAZAKHSTAN ENGINEERING NATIONAL COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED) (in thousands of tenge)

### Finance costs (Note 30)

	2015	2014
JSC Samruk-Energy	<u>248,673</u>	<u>185,565</u>
	<u>248,673</u>	<u>185,565</u>

### Remuneration of key management personnel

For the years ended 31 December 2015 and 2014, compensation to key management personnel amounted to 609,837 thousand tenge and 730,424 thousand tenge, respectively.

### 36. SUBSEQUENT EVENTS

On 21 January 2016, the Board of Directors of the Company approved assets restructuring plan for 2016. According to the plan, the Company is going to sell a controlling interest in the following subsidiaries: JSC Semipalatinsk Machinery Construction Plant, JSC Kirov Machinery Plant, JSC Tynys; 100% share in the following subsidiaries: JSC Omega Instrument Making Plant, JSC 832 Motor-repair Plant KE; shares in the following associates: JSC ZIKSTO and Indra Kazakhstan engineering LLP.

### 37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved and authorized for issue by management on 5 March 2016.